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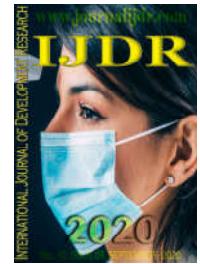
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RESEARCH ARTICLE

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GLOBAL DEBT AND ECONOMIC GROWTH NEXUS: OPPORTUNITIES AND CHALLENGES IN ECONOMIES

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ABSTRACT

It is important to note that debt improves welfare and enhances growth when moderated and managed better. It provides resources that is not available to complement developing economies' development objectives. However, excessive and inefficient use of debt can be damaging to any economy, making repayments difficult, consequently unsustainable debt. Global debt across economies – developed, emerging and developing are increasing with resultant adverse implications to economies around the world. The global public and private debt have reached an all-time high of \$247 trillion in July, 2018, the equivalent of 225 percent of GDP in 2017. On average, the world's debt now exceeds \$86,000 in per capita terms, which is more than 2½ times the average income per-capita. The domestic debt level remains highly elevated, accounting for 2/3 of total output in 2018. In addition, the rate of increase of domestic debt outstrips the growth rate of Gross Domestic Product in many developing countries. Using a new dataset on debt levels in 20 OECD, emerging and developing countries from 1980 to 2010, we examine the impact of debt on economic growth. Using variations across countries and over time, we examined the impact of the movement in debt on growth. The result shows that countries that manage to keep debt levels low and invest in productive capital infrastructure tend to have positive effect on growth whilst those with excessive and poorly managed debts mainly on consumption and transfers had negative relationship between debt and growth. Across countries, economies have been able to maintain levels below the threshold while some countries failed to achieve sustainable debt management, hence resulting into debt unsustainability with its adverse consequences.

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INTRODUCTION

The key objective of developing economies is to achieve high economic growth but the weak economic systems and low level of per capita income, challenges they are faced with, it became difficult to achieve the desirable growth. They, therefore, opt for foreign debts from international agencies and financial institutions to fill the funding gap. One of the imperative policy questions is that what should be the effects of foreign debt on economic growth of a country? Expansionary government policies are although effective in short period but reduce long run growth by crowding out private investment and thus nullify the positive effects of fiscal incentives. It is important to note that foreign debt is important, required by countries to enhance the growth capacity by utilizing it in various developmental projects, to meet its obligations and to fulfill saving and investment gap.

However, foreign debt is of great concern for both policy makers and academicians. Until now, no common consensus on public debt and growth relationship has been developed amongst the researchers. On one side, it is viewed that it brings capital and the productive utilisation of this capital helps the economy to grow faster. It brings technology which helps industrial growth and further helps in mobilizing the human and physical capital which are the engines of growth. On the other side it is viewed that excessive accrual of foreign debt retard growth by outcrop the private investment. It is therefore worth to mention that debt is a two-edged sword. Use of debt wisely and in moderation, it clearly improves welfare of the population. But, when it is used imprudently and in excess, the result can be a disaster in terms of increased debt repayments, slow down on infrastructural development, limited fiscal space for other equally important sectoral developments.

For individual households and firms, increased borrowing leads to bankruptcies and financial ruins. For a country, too much debt impairs the government's ability to deliver essential services across sectors to its citizens. The macroeconomic outlook of West African Monetary zone (MAMZ) has improved reflecting domestic policy adjustments and a favourable external environment. The region recorded a slight uptick in GDP growth for its member countries from 4 percent in 2017 to 4.1 percent in 2018, attributed significantly to a rise in commodity prices, specifically oil prices, and favourable external financing conditions. Fiscal consolidation programs resulted in a reduction in the fiscal deficit from 11.4 percent in 2017 to 11 percent in 2018 which boded well for debt sustainability. However, the risks to debt sustainability remain as member countries still need to mobilize domestic revenues. Risks to the outlook comprise a tightening in external financing conditions (grants and highly concessional debts), a stronger dollar, and lingering global trade tensions. MAMZ continues to prioritize the reform of revenue administration. The World Bank interventions supported country authorities to develop strategic plans to address gaps in processes identified by the Tax Administration Diagnostic Assessment Tool (TADAT) assessments across the region. TADAT continues to form the basis for assessing revenue administration and the development of strategies, moving forward. Further, training was conducted to build capacity in improving audit and compliance, tax arrears management and data-matching to ensure revenue capture. Most countries in the region are on the verge of data migration to a new integrated tax administration system (ITAS) aimed at automating tax processes, develop risk management processes and help to adequately audit the telecommunications industry.

The remainder of the paper is organised in four sections. In Section 2, we discuss literature review of debt management across countries. Section 3 discusses why debt matters. Section 4 analysed the macro data, 5 discusses why debt increasing, 6 captures impact of debt on growth, 7 on prospects and challenges and section 8 concludes.

LITERATURE REVIEW

By definition, external debt refers to the portion of a country's overall debt that is borrowed from foreign lenders which include commercial banks, governments or international financial institutions (Focus Economics, 2019). Others defined foreign debt as the money that the government and organizations in a country have borrowed from institutions and governments in other countries (Udeh 2015). For this study, we define foreign debt as the amount a country owes to other countries either directly in the form of government to government loans or indirectly due to the negative balance of trade. However, due to a shortage of resources and some relative advantages, countries depend on one another to enhance their economic growth in order to achieve sustainable economic development (Afolabi et al., 2017). Domestic savings may not be able to provide all the required infrastructures that can lead to the industrialization of a developing country. Therefore, developing countries rely on external financing to fill the developmental vacuum and meet economic growth needs that domestic saving is inadequate to satisfy. Foreign debt has remained one of the major challenges facing low-income nations. In Sub-Saharan African countries like Nigeria due to the constant budget deficit, unfavorable balance of payment and most importantly the inevitable need

for industrialization. Soludo (2003) affirms that the adverse balance of payment and budget deficit are the two major issues that lead to the acquisition of foreign loans. When low-income nations are confronted with this dilemma, they have no option but to turn to International Financial Institutions and Bilaterals for loans. When such loans are acquired by a nation, debt servicing becomes the order of the day and if it is not well handled, economic growth originally intended will be far-reaching in the process. According to Udeh (2013), settlement of excessive foreign debts hindering the growth of most highly indebted poor countries (HIPC) has led to the embracing of numerous initiatives ranging from debt rescheduling, debt swap to debt cancellation. Bakare (2011) submits that external borrowing to foster economic growth and development is misappropriation of such borrowed funds in most developing countries which in turn results to the increasing economic challenges consequently economic crisis. In most countries, foreign borrowing is somehow reckless and non-directional, it has become a norm and issue of politics without major capital projects in mind when foreign loans are contracted, but the challenge is the misappropriation of such borrowed funds representing a total leakage from the economy and making repayments difficult.

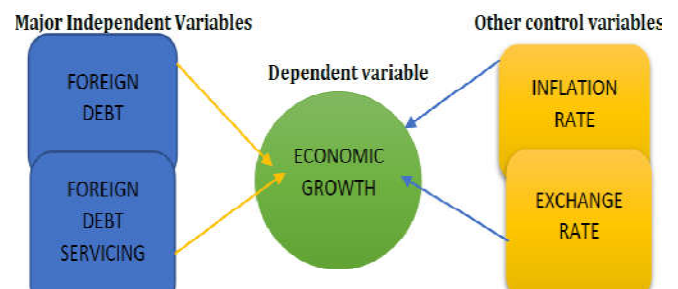


Figure 1. Conceptual framework

Figure 1 above depicts economic growth as a function of the major independent variables (foreign debt and foreign debt servicing) and the control variables (inflation rate and exchange rate). Growth and foreign debt relationship have been investigated by many academician and researchers. Mostly the findings of these researches found negative relationship between the two suggesting foreign debt a big hindrance to economic growth because it discourage private investment, a source of economic activity bringing growth in the economy. Cunningham (1993) studied the growth and debt relationship. He took the sample period from 1971 to 1987 for highly indebted countries. His conclusion was very exciting one, on the one hand, he found negative association between the two during the period from 1971 to 1979 and on the other hand, during 1980 to 1987 there was no significant role played by external debt on growth of the economies. Iyoha (1999) and Maureen (2001) found that external debt retard growth in sub Saharan African countries during 1974 to 1994 and in Kenyan economy in the period from 1970 to 1995 respectively. Karagöl (2002) found that the foreign debt services slow down the growth pace of Turkish economy and the causality run from debt service to level of GNP. Ogunmuyiwa (2010) and Ezeabasili *et al.* (2011) concluded that in Nigerian economy, the foreign debt does affect growth in both studies in the period of 1971 to 2007 and 1975 to 2006 respectively. Wijeweera (2005); Hasssan and Safdar (2008) found that external debt and economic growth has insignificant association in Sri Lankan and Pakistan Economies

respectively. Malik (2010); Ahmed and Maryam (2011) found that External Debt by crowding out private investment deteriorate the growth of Pakistan economy. Shah and Pervin (2012) concluded that external debts reduce the growth pace of Bangladesh economy as both are negatively associated. Boboye and Ojo (2012) also found negative relationship between foreign debt and economic growth of Nigeria. They concluded that because of debt burden, the domestic currency devalued and thus decrease the national income of Nigeria. Safia (2013) taking the panel analysis of 70 developing economies found that during 1976 to 2011, there exist negative relation between external debt and economic growth as external debt services becomes excessive adversely impacting on growth of the sample countries. The recent global financial crisis has brought forth the issue of the dangers of high and increasing indebtedness back. Before the crisis, it somehow seemed that the world has been accustomed to high levels of debts and high indebtedness practiced by number of countries was rarely seen as major problem. Although high indebtedness was generally recognized as a concern, no alarms were switched on, and the indebted countries could turn to the world markets as they required. However, sovereign debt crises that some countries have been subjected to recently, call for revisiting the issue of the dangers of high indebtedness. There is relatively strong evidence which sends a warning that high debts may be very dangerous for growth. Investigation in this paper contributes to the literature by covering the recently very hot issue of the dangers of high indebtedness (in terms of both public and external debts).

Last couple of years has witnessed a huge increase in the number of empirical studies covering the issue of high indebtedness and its relations with growth. This comes as a natural consequence of the recent global financial and economic crisis and a turmoil that has been created worldwide resulting inconsideration of the bankruptcy concerns for number of sovereign states, both from the group of developed and developing countries. This particularly applies to the countries with very high levels of debt (public and external) in relation to their GDP. Reinhart & Rogoff (2011) found out that whereas the link between growth and debt seems relatively weak at "normal" levels, median growth rates for countries with public debt over roughly 90 percent of GDP are about one percent lower than otherwise; for emerging economies – when external debt reaches 60% of GDP, annual growth declines by about 2%; for levels of external debt in excess of 90% of GDP, growth rates are roughly cut in half. With moderate debt levels, the relationship between debt and growth becomes weak but negative with excessive debts. The longitude of the data and coverage of a broad sample of countries seem very informative and point towards the presence of a negative relation, especially at high levels of indebtedness. The relationship could be positive impact of higher debt on growth if those deficits were used to finance productive public investment. However, it could be negative if debt increases are related to higher public consumption and transfers.

Debt vulnerabilities in low-income countries (LICs) have increased substantially in recent years, increasingly mainly from non-concessional and private sources with its accompanying high interest and short-term payment periods. As a result, in most LICs interest payments are absorbing an increasing proportion of government revenues. The majority of LICs would be hard hit by a sudden weakening in trade or global financial conditions given high levels of external debt,

lack of fiscal space, low foreign currency reserves, and undiversified exports. A proactive effort to identify and reduce debt-related vulnerabilities is a priority for many LICs. Policymakers should focus on mobilizing domestic resources, improving debt transparency, and strengthening debt management practices. These efforts should be complemented by measures to strengthen fiscal frameworks, improve the efficiency of public expenditures and public investment management, and develop domestic financial systems. LICs with greatest increase in public debt include Mozambique, Sierra Leone, Benin, Zimbabwe and The Gambia among others reaching levels of 130 per cent of GDP at some periods. Rifaqat & Usman (2012) assessed the impact of external debt on the economic growth of Pakistan using both the short and long term approach for a period covering 1970 – 2010. The study employed Gross National Product as a function of external debt in conjunction with other control variables which include expenditure on education, capital and labour force. The findings revealed, among others, that external debt had a significant negative influence on economic growth, thereby confirming that a high foreign debt burden impedes economic growth. Kasidi & Said (2013) applied the Ordinary Least Squares (OLS) method to evaluate the impact of external debt on the economic growth of Tanzania from 1990 to 2010. The results showed that external debt stock had a significant positive impact on GDP, while external debt servicing exerted a significant negative influence on GDP. Both results were significant, implying that external debt gives economic progress and also takes with it excessive debt servicing. Debt servicing is so demanding that most developing countries go into fresh borrowing in order to have funds to service old foreign debts to avoid the compounding interest, penalties and to remain credit worthy before their foreign lenders.

Mukui (2013) study assessed whether external debt and debt servicing payment actually had a significant influence on the economic growth of Kenya. The study employed the linear model to analyze the impact of external debt on the economic growth of Kenya from 1980 to 2012 while including in the model some control variables such as capital formation, domestic saving, inflation, labour force, and foreign direct investment (FDI). The results indicated that external debt and debt servicing had negative impacts on economic growth. The control variables that also exerted the same negative influences include domestic saving, inflation and labour force. However, capital formation and foreign direct investment were the factors found to be having a positive and significant impact on economic growth. Thus, the study suggested policies that will attract and increase FDI inflows in Kenya. Siddique, Selvanathan & Selvanathan (2015) employed a panel data of 40 highly indebted poor countries from 1970 to 2010 to examine the impact of foreign debt on economic growth. The study made use of panel data estimation of an ARDL model. The results revealed that the external debt of these poor countries had a negative impact on economic growth both in the long run and in the short run. Saxena and Shaner (2015) examined the relationship between economic growth and external debt in India using Ordinary Least Squares technique and a secondary data spanning from 1991 – 2015. The study found the existence of a negative relationship between the Gross Domestic Product (GDP) and India's external debt stock.

Akram (2016) examined the effect of public debt on economic growth and poverty reduction in selected South Asian Countries (including Bangladesh, India, Pakistan, and Sri

Lanka) for a period covering 1975 to 2014. The study used a model that incorporated the role of public debt in effecting economic growth which was turned into an equation that was also used to assess the same effect of public debt on poverty. Standard panel data estimation methodologies were applied to estimate the model and the results showed that public debt had a negative impact on economic growth. Elwasila (2018) investigated the effect of external debt on the economic growth of Sudan from 1969 to 2015 with findings revealed that external debt to export ratio had impacted positively on Sudan’s economy while the control variables (the exchange rate and FDI) employed exerted a negative influence on GDP growth in Sudan. Matuka and Asafo (2018) examined the impact of external debt on economic growth in Ghana using co-integration analysis and an error correction methodology. The study made use of annual time series data covering a period from 1970 to 2017. The findings indicated that external debt impacted positively on economic growth in Ghana both in the long and short terms. Shkolnyk and Koilo (2018) empirically examined the relationship between external debt and economic growth in Ukraine from 2006 to 2016 using different econometric techniques. The study established that a high level of external debt and macroeconomic instability impede economic growth. The study further revealed that the debt burden on Ukraine as found in other emerging economies had denied them expected economic improvement. Similar study of AL-Tamimi and Jaradat (2019) on Jordan using annual time series data covering a period from 2010 to 2017 found that external debt had a significant negative impact on economic growth. Thus, the study suggested foreign direct investment as an alternative method of financing.

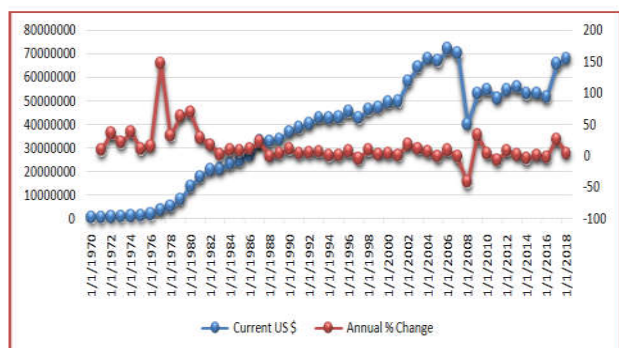
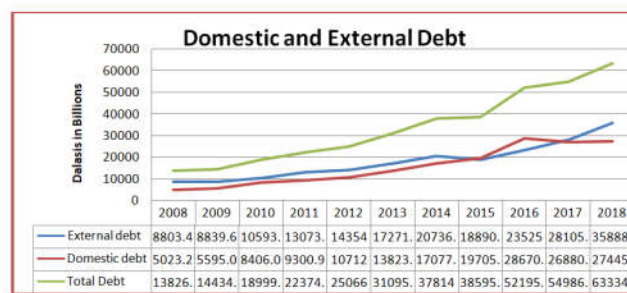


Figure 2. Total Debt and Growth Rate of Gambia – 1970 -2018

In Figure 2, total debt and growth rate of annual debt is presented showing increasing trend of debt from 1970 to 2006 dropping in 2008 thereafter rising to 2018. The implications of principal and interest payments could be far reaching on revenues. The growth rate was sharp in 1978 thereafter declining through to 2006 up by 2008. However, the debt to GDP ratio remains high at 130% in 2018 declining to 83% in 2019 after a rebase of the GDP. Figure 3 presents the external, domestic and total debt of The Gambia with both external and domestic debts rising through out the period during the period. Total debt reached over GMD63 billion equivalent to USD1.3 billion at end of 2018. Calls for debt rescheduling, cancellation and highly concessional loans are crucial if these debts are to be sustainable.



Source: Central Bank of The Gambia

Figure 3. Domestic and External Debt

As a way forward, building synergies and capabilities to participate and compete in global trade is the medium to long term growth prospects. Africans need to conduct comprehensive economic structural change considerably by adding value to its primary products to exports, retain jobs and develop downstream products.

The implications of increased public and private debt is enormous on economies. It diverts resources from developmental projects (infrastructural developments), social expenditures of health, education and welfare to more debt - principal and interest payments. Therefore, growth is slowed down or even negative with accompanying risks of vulnerabilities of increasing poverty, marginalization and poor’s access to resources. It crucial to note that, beyond a certain level, debt is a drag on growth. For government debt, the threshold accordingly to some studies of about 70 per cent of GDP. The immediate implication is that countries with high debt must act quickly and decisively to address the fiscal problems. The longer-term lesson is to build the fiscal buffer required to address extraordinary events, governments should keep debt well below the estimated thresholds. When corporate debt goes beyond 90% of GDP, it becomes a drag on growth, priority misplaced, no fiscal space to address key socio-economic welfare of the population and infrastructural development sacrificed. Taking a longer-term perspective, increasing debt to higher levels represents a severe test for any economy. The challenge is compounded by unfavourable demographics -ageing populations and rising dependency ratios have the potential to slow growth as well, making it even more difficult to escape the negative debt dynamics that are now looming. There is a robust modern literature on debt financial crises that policy makers in newly affected countries can potentially draw from. The existing literature has yet to fully account for the large size of the crises and the long run effects, but still there are number of findings that may help guide policy in the context of the debt crisis. Not surprisingly, there is a vast literature on debt financial crisis and one story that emerges clearly is that financial crisis is a reasonably well-defined economic problem, and it is avoidable with the right set of policies, (Jaabi 2016, Adamu 2017). In order to understand a financial debt crisis, it is important to look at the “boom” period that usually precedes a crisis – two main strands of the literature on crises that attempt to account for this period. The first view states that the “boom-bust” cycle is evidence of excessive investment and risk taking (facilitated by easy monetary policy). The 1970s saw economic boom in most African countries with increasing oil prices for Nigeria, Angola, Libya etc. Instead of building strong Stabilisation Fund for economies in times of anticipating financial crises, these countries went ahead to build costly white elephants

(Presidential jets, other landmarks, construction of mosques and churches). The second perspective presupposes that inflated prices in assets increases liquidity – rather than excessive investment and facilitates investment. Whichever strand of the literature one subscribes to, what is clear is that “boom” periods are usually followed by “bust” especially if the boom is poorly managed. That is, “bubbles” tend to ultimately lead to “bust” when asset prices drop precipitously and financial markets are no longer functional. Financial markets become dysfunctional because of liquidity problems and the problem of contagion - financial institutions and markets are interconnected, hence become the carrier of the crisis.

Gap in the Academic Literature: There are obvious discrepancies in the existing studies on the effect of foreign borrowing on economic growth. Kasidi & Said (2013) found that foreign debt impacted positively and significantly on economic growth of Tanzania while debt servicing had a negative influence on Tanzania’s economy. The findings of Elwasila (2018) revealed that external debt to export ratio impacted positively on Sudan’s economy while Matuka & Asafo (2018) findings indicated that external debt impacted positively on the economic growth of Ghana, both in the long and short terms. The other foreign studies (Akram, 2016; AL-Tamimi & Jaradat, 2019; Mukui, 2013; Rifaqat & Usman, 2012; Saxena & Shaner, 2015; Shkolnyk & Koilo, 2018; Siddique et al., 2015) reviewed in this study provided evidence that foreign debt and its servicing impacted negatively on economic growth. There were also mixed results in the studies carried out in Nigeria. The striking ones were the studies that covered a period from 1981 to 2014 but found different results. While Ijirshar et al. (2016) and Monogbe (2016) studies found that external debt impacted positively on economic growth of Nigeria, other the studies of Afolabi et al. (2017) which spanned from 1980-2014 revealed a negative influence as well as the findings of Onakoya & Ogunade (2017) for the period 1981-2014. However, the current study is focused on reviewing the impact of foreign debt on global economic growth – advanced, emerging and developing economies with indications that the level of debt impact differently on GDP – the higher the debt and poorly managed, the adverse effect on GDP while the lower and better managed debt adds positively on economic growth.

Build Technological Capabilities to Compete in Global Trade: Much of the traditional theoretical and empirical studies neglected the need for developing countries to build technological capabilities. In developing Sub-Saharan Africa (SSA) countries, despite trade liberalisations in the 1980s, the region failed to exploit the opportunities offered by global trade largely due to low firm capabilities, weak public sector support and inability to meet sanitary and quality standards, (Lall, 1992, 2002; Rasiah, 2006, 2007). SSA’s share of global manufacturing value added fell from 0.43% in 1980 to 0.41% in 2000 and its share of manufactured exports shrunk further from 0.3% in 1980 to 0.2% in 2000 (this compared with East Asia’s 6.8% and 18.4% respectively), (Lall & Mbula, 2005:2). The region is seemingly ‘off the map’ in dynamic technological upgrading and has become marginalised in global economy. Addressing these problems require strengthening domestic technological capabilities and boosting technological efforts by attracting foreign direct investments (FDI). However, this can only be achieved under favourable macroeconomic framework conditions, skills development and

acquisition of state-of-the-art equipment for growth and competitiveness, (UNIDO, 2006; Lall and Mbula, 2005).

Enhancing technological capabilities requires human skills, huge investments and other inputs often beyond the capacity of local firms in SSA. Without public sector agencies in SSA providing infrastructure and technological investments, firms are likely to go without building the required capabilities. The inability of firms to meet this investment requirement and ensure quality standards among others rendered unlikely to compete effectively in global markets (Lall, 1992:168; Katz, 2006). It is important that firms overcome investment, production and linkage obstacles to participate and compete in the complex global markets where human resource skills, sophisticated equipment, quality control and diffusion of technology matter. Like firms, countries differ in their abilities to utilise and innovate technologies and often this is reflected in their productivity, export growth and volume as well as economic development. According to Nelson (2008), for National Technological Capabilities (NTC) to develop adequately, there must be improvement in capabilities in the form of physical investment, human capital and technologies. SSA governments must intervene to enhance economic performance and global competitiveness of investment projects which are often beyond the capabilities of the private sector. Southeast Asia’s rapid economic growth was a direct result of improved firm and national technological capabilities (Lall, 1992; Stiglitz, 1996; Chandra et al. 2006; Nelson, 2008; Katz, 2006; Rasiah, 2006, 2012).

There is evidence that institutional changes and technological developments matter a great deal in facilitating change. Stable macro-economic environment, enabling institutions, supportive meso-organisations and legal reforms are crucial in this effort. Government’s collaboration with international organisations are key in building human resource skills and the necessary capabilities to boost productions, add value and compete in exports globally. National governments in promoting investments and attract FDI helped to boost countries’ chances to participate and compete in global export markets.

Building Domestic Technological Capabilities and Competitiveness: Gerschenkron (1962) believed that differences in nations’ ability to innovate technology and adapt it to their particular circumstances were the primary cause of differences in per capita income among countries, and that the ability to appropriate what others had innovated was the essence of the latecomer’s advantage. Arrow (1962) posited that technological progress was endogenous because superior technology was embodied in new capital goods and could be acquired through learning by doing. Uzawa (1965) came close to explaining how diffusion could help transfer better technologies from the well-developed to the less-developed countries, particularly through FDI transfers. Key channels to transfer skills and technology includes string government commitment, transfers through Multinational corporations (MNCs), internal transfers through FDI, external transfers through licensing agreement, capital goods imports, local adaptation and development, contracts and consultants, harnessing the diaspora technical skills, clusters and technology parks, investments in human capital, among others. Similar public sector supports in South Korea were able to strengthen domestic firms to global competitive positions. The steel industry was prominent in government support in the late

1970s and the increasing exports of SMEs were able to turn the trade deficits into surpluses. Through incentives and tax breaks, domestic firms were able to consolidate and effective link with foreign firms on the global stage for enhanced international trade.

Contrary to classical economist view such as Bauer 1969, 1971, Adam Smith, Freeman, on the role of government in economic development be limited to provision of an enabling environment, Johnson, (1982); Jessop, (1990); Das, (1996), Rasiah, (1996), Polidano, (2001); Wong, (2004), Stiglitz (2002) argued that role of government is considerably required to push economic development forward as seen in the miraculous growth of East and Southeast Asian economies. John Kenneth Galbraith once said that the first task of a less economically developed country *'is not to get capital or technicians, but to build competent organs of public administration'*. He further stated that the fundamental challenge faced by many poor countries *'is not the inadequacy of aid and trade with the rich nations, but instead inappropriate social and political institutions'*. Three key policies formed the basis of Singapore's industrial strategy included the following:

- Improving infrastructure – electricity, water, roads, ports, telecommunication and air transport
- Setting up Economic Development Board to attract MNCs
- Expanding science, engineering and technical training facilities in schools, polytechnics, universities and special institutions

Indeed Singapore's continued economic growth owed it to technological upgrading almost exclusively through technology transfer from MNCs not by initial indigenous R & D development. Singapore was quick to recognise the global shift towards information economy by attracting large MNCs in the global ICT industry and by promoting the rapid adoption and diffusion of ICT in all sectors of the economy (Wong, 2004). Singapore's economic success was derived from its ability to transform itself into a key manufacturer of electronics and ICT products. Like Japan and South Korea, Singapore government recognised early that quality people were the key to an effective organisation. The government's philosophy of human resource development – a reliance on excellent quality staff the job requires. The Singapore government's strategy to improve skills depended largely upon in-house training by the MNCs. The Economic Development Board (EDB) played a critical role by brokering arrangements with companies to develop crash programs to upgrade its labour force (Schein, 1996:48) as well as joint training institutes between Singapore and Germany, Japan and France under the Local Industry Upgrading Programme (LIUP). The theory was that the MNCs and foreign training institutes would be in a better position than government to ensure right set of skills was taught. The EDB's focus also shifted to attracting MNCs that would be willing to create 'joint sponsored training programs' that can quickly enhance the skill levels of Singaporeans with funding provided by EDB. The dependence on MNCs to provide much of the training had drawbacks that became apparent in the 1990s, as it became unclear whether these skills are appropriate to develop endogenous technological capabilities. In addressing domestic firm and national technological capabilities, the government invited to

ten universities¹ around the world to establish branches in Singapore couple with National University of Singapore (NUS), Nanyang technological university² and overseas universities where young Singaporeans enrolled mainly in the sciences – engineering, ICT, medicine. Graduates of these institutes were urged to set up research institutes fully funded by EDB. It became a law in Singapore that all MNCs operating in the country must incorporate staff of these local research institutes as part of their laboratory core staff. The knowledge gained in MNC laboratories are further developed upon in local research institutes which are patented and knowledge commercialised through University/Research Institute – Industry linkages. The salient aspects of the education system, knowledge and skill acquisition, have contributed to Singapore's current wealth by supplying the needed pool of labour to MNC, hereby allowing it to attract increasingly technological sophisticated FDI and as a trigger of the new knowledge-based economy.

In 50 years of independence, the Singaporean approach to economic development has transformed a poor, small country resources constraint into one of the wealthiest countries globally³. This is owed to enlightened leadership, wise policies, institutional building and the superb execution of these institutions. Singapore's institutions are the result of careful planning, on-going consultation with multiple stakeholders, independence from political interference and the employment of the best talent available, regardless of nationality. Singapore's economic success has relied heavily on MNCs and FDI for industrialisation, jobs, technology and skill development. The economy continuous to be highly depended on foreign firms while at the same time upgrading domestic firms' capabilities. Singapore's policies and approach to development can be credited with taking Singapore to the edge of global technological frontier. While research and development, innovation and creativity have always been important and instrumental to technological and economic development, success in an ICT dominated knowledge economy have placed greater emphasis upon such attributes and activities.

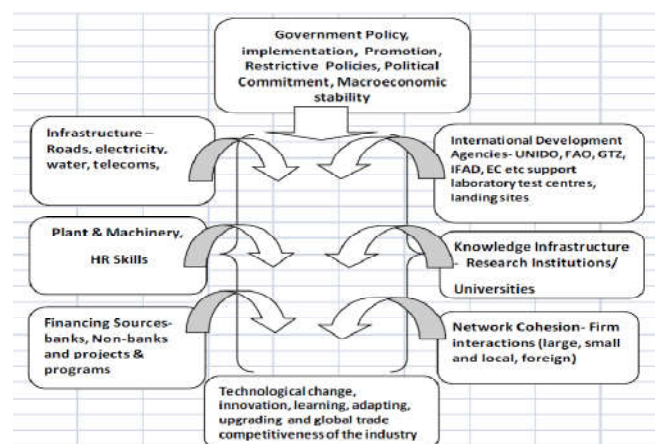


Figure 4. Framework of Technological Capability Change

Singapore is one of the world's major commercial hubs, the fourth-largest financial center and one of the five busiest ports.

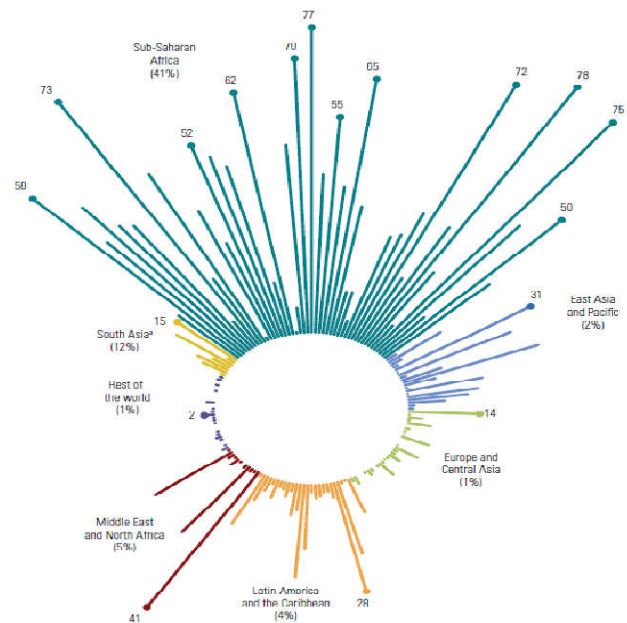
¹ As per the world university ranking

² Ranked 25th and 47th respectively in the 2012 QS World University Rankings

³ From a normal economy to knowledge-based economy

Its globalised and diversified economy depends heavily on trade and manufacturing, which accounted for around 30 percent of Singapore's GDP in 2013. Singapore places highly in international rankings with regard to standard of living, education, healthcare, and economic competitiveness. Singapore has one of the highest per capita incomes and one of the longest overall life expectancy in the world. The country is one of nine countries in the world with top AAA rating from all credit rating agencies (Wigdor, 2013). Overall, these developments impacted considerably on production and exports to spur economic growth. Countries lacking basic capabilities find it difficult to participate and compete in global trade thus affecting economic growth prospects

Why Debt Matters: Debt matters indeed as it can have positive impact on growth if these funds were used to finance productive public investment. However, it could be negative if debt increases are related to higher public consumption and transfers leaving limited fiscal space for equally high prioritised sectors of the economy – education, health, agriculture and infrastructural development.

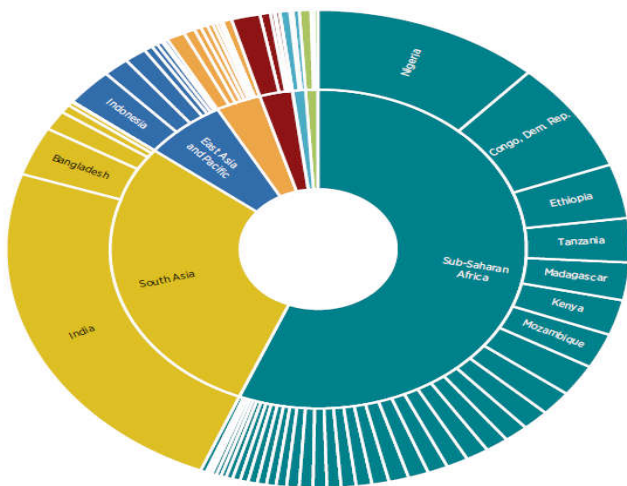


Source: World Bank <http://research.worldbank.org>

Figure 6. Extreme Poverty Rate by Region and Country, 2018

stability policy on the same theoretical footing that exists for conventional monetary policy. They are working not only to understand the sources of systemic risk, but also on how to measure and mitigate it. That means writing down models in which debt truly matters and working through its implications.

As for its uses, borrowing allows individuals to smooth their consumption in the face of a variable income. It allows corporations to smooth investment and production in the face of variable sales. It allows governments to smoothen taxes in the face of increasing expenditures. It improves the efficiency of capital allocation across its various possible uses in the economy. At least in principle, it should also shift risk to those most able to bear it. Public debt, in particular, can help smoothen consumption not only through the lifetime of individuals who are currently alive, but also across generations, to the extent that future generations will be richer than the current ones – because they will have a combination of more human capital and more productive technology. Furthermore, government debt also provides liquidity services, which can contribute to easing the credit conditions faced by firms and households, thus crowding in private investment. For all these reasons, financial deepening and rising debt go hand in hand with improvements in economic well-being. Without debt, economies cannot grow and macroeconomic volatility would also be greater than desirable (Adamu 2016). Hence, instead of high, stable growth with low and stable inflation, higher debt can mean disruptive financial cycles in which economies alternate between credit-fueled booms and default driven busts. With the busts deepen enough, the financial system collapses, taking the real economy with it. It is important to note that there is a clear interaction between public and private debt. During the recent crisis, when private borrowing has fiscal backing, default increases public debt. The ability of the public sector to sustain a given level of debt depends on its ability to raise domestic revenue or its fiscal capacity. To conclude, at low levels, debt is good. It is a source of economic growth and stability, but at high levels, private and public debt can be bad, increasing volatility and retarding growth.



Source: <http://research.worldbank.org/PovcalNet/>. World Bank, Washington, DC.

Note: The inner circle is divided proportionally to each region's share of the total population living in extreme poverty. The outer circle is similarly proportionate, but at the country level.

Figure 5. High Debt Countries and Regions

Figure 5 showed the high debt countries with Sub-Saharan Africa (SSA) and South Asia dominating. Mozambique, Tanzania, Nigeria, Gambia, Ethiopia, Kenya, Madagascar and Democratic Republic of Congo dominated SSA debts while India and Bangladesh are highest in South Asia. Figure 6 below showed the high debt countries are co-related with extreme poverty rate across regions and countries. These are dominated by Sub-Saharan Africa, Latin America, South Asia, Far East and the Pacific and East and Central Asia. We can also deduce the high poverty rates in these regions due largely to high debt challenges leaving little fiscal space to address increasing poverty conditions across developing countries. As the mainstream was building and embracing the New Keynesian orthodoxy, there was a nagging concern that something had been missing from the models. On the fringe were theoretical papers in which debt plays a key role and empirical papers concluded that the quantity of debt makes a difference. The latest crisis has revealed the deficiencies of the mainstream approach and the value of joining those once seen as inhabiting the margin. In response to the challenge, macro-economists are now working feverishly to put financial

It is in this sense that borrowing can first be an opportunity and beneficial, so long as it is modest. But beyond a certain point, debt becomes dangerous and excessive.

Analysis Using Macro Data: The past three decades have witnessed a remarkable rise in advanced country indebtedness. Trends in aggregate financial sector debt, two facts stand out: first, total financial debt as a percentage of GDP, as well as its sectoral components, have been rising steadily for much of the past three decades. Starting at a relatively modest 167% of GDP three decades ago, total financial debt has reached 314% of GDP. Of this increase, governments account for 49 percentage points, corporates for 42 percentage points, and households for the remaining 56 percentage points.

A summary of IMF data on increasing debt across sampled developed, emerging and developing economies as shown in Table 1.

Table 1. Corporate & Government Debt As A Percentage Of Nominal GDP

	1980	1990	2000	2010
United States	151	200	198	268
Japan	290	364	410	456
Germany	136	137	226	241
United Kingdom	160	203	223	322
France	160	198	243	321
Italy	109	180	252	310
Canada	236	278	293	313
Australia	128	174	185	235
Mexico	262	278	285	238
Belgium	170	264	298	356
Denmark	165	180	259	336
Finland	146	173	222	270
Argentina	322	345	290	262
Netherlands	205	265	294	327
Norway	169	172	256	334
Portugal	144	141	251	366
Spain	172	187	258	355
Sweden	219	289	320	340
Benin	278	232	167	134
Nigeria	189	144	166	112
TOTAL	3811	4404	5096	5896
Median	236	250	298	284
Simple Average	190	220	255	295

Source: OECD & IMF Data

Table 2: Correlation of Debt with Annual Per Capita GDP Growth

Total financial debt	-0.0196*** (0.000)
Government debt	-0.0028*** (0.468)
Private debt	-0.016*** (0.000)
Corporate debt	-0.0244*** (0.000)

The Table reports simple correlation, computed using ordinary least squares, of the annual per capita growth rate *** Significant relationships, results showing negative relationships Source: Results of 20 OECD countries

Why Has Debt Been Increasing?: The relentless accumulation of financial debt has coincided with some important institutional and market developments. First, from the late 1970s onwards, restrictions on financial market activity and lending had been progressively and systematically removed, increasing opportunities to borrow. Combined with improvements in financial theory and information technology, this liberalisation has led to an intensification of financial innovation. Second, starting in the mid-1980s and continuing until the start of the recent crisis, the Macro-economic environment had grown more stable. The Great Moderation brought lower unemployment rates, lower inflation rates and less uncertainty.

Table 3: Correlation of per Capita GDP Volatility with Debt

TOTAL DEBT	0.0043 (0.336)
GOVERNMENT DEBT	-0.0056*** (0.301)
PRIVATE DEBT	0.014*** (0.008)
CORPORATE DEBT	0.0104** (0.037)

Table 4. Threshold Effects

	Threshold Estimate	Coefficients		
Government debt				
Controlling for crisis	96%	<96%	>=96%	
		-0.0052 (0.231)	-0.0136*** (0.0041)	
Not controlling for crisis	84%	<84%	>=84%	
		-0.0072 (0.378)	-0.0132* (0.056)	
Corporate debt				
Controlling for crises	73%	<73%	>=73%	
		0.0118 (0.155)	0.0046 (0.484)	
Controlling for crises (2 threshold points)	73% - 99%	<73%	>=73% - 99%	>=99%
		0.0056 (0.152)	-0.0018 (0.396)	0.0036 (0.206)
Not Controlling for crises (2 threshold points)	73% - 88%	<73%	>=73% - <88%	>=88%
		0.0042 (0.223)	-0.0042 (0.262)	-0.0058** (0.0042)

First, believing the world to be a safer place, borrowers borrowed more, lenders lent more – and inflation remained low. Second, there was also a likely feedback here, as financial innovation improved the stability of credit supply and allowed risk to flow to risk appetite level, it improved general economic stability. Third, since the mid-1990s, the substantial decline in real interest rates has made it easier to support ever higher levels of debt. The reasons behind such reduction are controversial. The most prominent hypothesis is that low long-term interest rates are a consequence of a high preference for saving in emerging markets – a preference that arose for a variety of reasons, including a poor social safety net, ageing populations' retirement needs, and a desire for insurance after the Southeast Asian financial crisis of the late 1990s. Finally, tax policies may have played a role, if not in explaining the rapid rise in debt, at least in making the level of debt higher than it would have been otherwise. The preferential treatment of interest payments encourages firms to issue debt – a factor that could be behind the rising corporate indebtedness we realise in some countries. Regardless of the cause, the consequences are clear. Over the past 30 years, debt has risen relentlessly across the industrial world. Looking at the simple average, total financial debt rose by 147 percentage points of GDP from 1980 to 2010. Of this, 38% (56 percentage points) was accounted for by households, 29% (42 percentage points) was a consequence of additional corporate borrowing, and a third (49 percentage points) represents increases in public debt.

The Impact of Debt on Economic Growth: Debt has been rising for decades, and economies have been growing in many quarters. With high levels of debt, policymakers are counting on robust growth to ensure sustainability. Without rising GDP, there will be no way to raise the revenues governments need to reduce their exploding debts. Global data showed that debt is rising to points that are above anything we can imagine, except during major wars. Have we come to the point where debt levels are so high that they are harming medium and long-term growth?. The empirical simple statistics of IMF global data on macroeconomic link between debt and growth with a run of some more sophisticated panel regressions in an effort to detect the impact of debt on growth. Looking at the relationship between debt and growth, in terms of both level and volatility is crucial.

Table 2 reported negative correlations based on bivariate least squares regressions of annual per capita GDP growth on various measures of aggregate financial debt. It can be observed that there is a negative within country correlation between growth and total financial debt. Financial corporate and private debt displayed a statistically and economically significant negative correlation with growth. For corporate debt, a 1 percentage point increase is associated with a 2 basis point reduction in per capita GDP growth. Table 3 reports equivalent results for the (overlapping) standard deviation of the five-year-ahead growth rate of per capita GDP, a measure of aggregate volatility, showing debt negatively related to GDP growth rate.

Table 4 reported results from estimating this threshold model for government, corporate and private debt separately, with and without the crisis variable. We estimate the threshold for government debt at 84% of GDP and, when government debt rises to this level, an additional 10 percentage points of GDP drives trend growth down by some 10–15 basis points. Before continuing, it is worth noting that the impact of public debt on growth could in part reflect the quality of government. The fact remains, poor governments do number of things that slow their economies, and debt is a consequence. We note, however, that because we include country fixed effects, it would have to be a deterioration in the quality of governance that was responsible. As in Table 4, levels above debt thresholds tend to impact adversely on growth whilst below the said threshold, it impacts positive on GDP growth rates.

Prospects and Challenges: Several industrial countries already have debt levels that may be growth-damaging. As we noted earlier and similar to the works of Cecchetti *et al* (2011), public debt ratios are currently on an explosive path in a number of industrial and developing countries. To prevent further deterioration, these countries will require to implement drastic policy changes that reduce current deficits, as well as future contingent and implicit liabilities. Yet stabilisation might not be enough, especially if it is at a level high enough to damage growth. Unfortunately, the unprecedented acceleration of population ageing that many industrial countries now face may make this task even more difficult. First, ageing drives government expenditure up and revenue down, directly worsening debt. There is an additional effect particularly in the developing world: rising dependency ratios put further downward pressure on trend growth, over and above the negative effects of debt. The dependency ratios measured as the young and old in society (the non-working age population) as a percentage of the working-age population, for advanced and emerging market economies. The majority of industrial countries are now close to a turning point similar to the one experienced by Japan in the early 1990s. After having declined and remained relatively stable, total dependency ratios will increase rapidly in these countries over the next few decades. Emerging market economies are also ageing. But, with the exception of Central and Eastern Europe, they lag advanced economies by at least two to three decades. This means that these economies will continue to enjoy a demographic dividend: as they catch up with richer economies, their young workforces should continue to support strong growth and saving.

Recent studies have combined the implications of current fiscal deficits with the estimates of future increases in health and pension spending in an effort to project public debt. While

they differ in their optimism, these studies all show that, under unchanged fiscal policy, debt-to-GDP ratios will explode in all but a few countries. The consequences are striking. Debt quickly rises to more than 100% of GDP – a level clearly consistent with negative consequences for growth. In number of countries such as Japan, the United Kingdom and the United States – the projections rise much further. In the euro area, the public debt ratio also rose, albeit less rapidly than in the UK or US, reflecting the fact that many countries face only a modest rise in the future costs of ageing. In addition to putting further pressures on public finances, ageing itself might also reduce per capita growth, making it potentially even more difficult for a country to sustain a given level of debt. With unchanged public policies, the greater amount of resources that will be channeled to the elderly through pension and health care spending will increase. Furthermore, older people save less than people in younger age groups. The exact timing at which saving might be reduced and the impact on real interest rates are controversial, depending on public policies and saving in the emerging world, among others. That said, the fact that ageing is asynchronous around the world may help more advanced and highly indebted countries to smooth the consequences. There are at least three reasons for that. First, immigration can partly slow the shrinking of labour forces in advanced economies. Second, as incomes and wealth rise, emerging economy savings may continue to flow to countries with more advanced financial markets and lower-risk assets, keeping interest rates down and permitting their capital stocks to grow. Finally, trade may also reduce the need for more radical changes in the composition of demand that ageing might otherwise bring with it. Such benefits of globalisation should help countries adopt the necessary reforms needed to reduce their public debt while at the same time helping the private sector – through the abundance of the supply of labour and savings, and the continuous low real interest rates globally – to do the necessary post-crisis balance sheet adjustments.

Conclusion

Considerable foreign debt accumulation is an economic burden that hinders economic growth instead of improving it as expected. When a foreign debt accumulates over time, it results in debt overhang and the developing country in question remains a perpetual dependent country to the foreign creditor countries using debt servicing instrument to exploit them. Under this scenario, the considerable part of the debtor country's resources goes into debt servicing for the country to remain credit worthy while leaving little fiscal space for socio-economic and infrastructural development. This is the situation Nigeria and most African economies are facing by ensuring that priority is given to servicing foreign debt so as to attract more debt. As a result, the foreign debt profile keeps rising as well as the servicing costs. The economic implication is that foreign debt servicing impacts positively on creditworthiness by attracting more debt while the increase in foreign debt leads to debt overhang which depresses the economy. Thus, the seemingly economic improvement experienced by judiciously servicing debt and making our poor economies, like Nigeria, credit worthy is a mere postponing the trouble because the increasing level of foreign borrowing is detrimental to the economy as large portion of revenues are reserves for debt payment. While the attention of policymakers following the recent crisis has been on reducing systemic risk stemming from a highly leveraged financial system, the challenges extend beyond that.

Our examination of debt and economic activity in industrial countries leads us to conclude that there is a clear linkage: *high debt is bad for growth*. When public debt is in a range of 85% of GDP, further increases in debt may begin to have a significant adverse impact on growth: specifically, a further 10 percentage point increase reduces trend growth by more than one tenth of 1 percentage point. A clear implication of these results is that the debt problems facing advanced economies are even worse than we thought. Given the benefits that governments have promised to their populations, ageing will sharply raise public debt to much higher levels in the next few decades. At the same time, ageing may reduce future growth and may also raise interest rates, further undermining debt sustainability. As public debt rises and populations aged, growth will fall. As growth falls, debt rises even more, reinforcing the downward impact on an already low growth rate. The only possible conclusion is that advanced countries with high debt must act quickly and decisively to address their looming fiscal problems. The longer they wait, the bigger the negative impact will be on growth, and the harder it will be to adjust. It is important to note that our finding of a threshold for the effects of public debt on growth does not imply that authorities should aim at stabilising their debt at this level. On the contrary, since governments never know when an extraordinary shock will hit, it is wise to aim at keeping debt at levels well below this threshold.

As with government debt, we knew that when the private sector becomes highly indebted, the real economy can suffer. Current efforts focus on raising the cost of credit and making funding less readily available to would-be borrowers. It is crucial to go further by reducing both direct government subsidies and the preferential treatment debt receives. In the end, the only solution to it, is to increase savings. The findings suggest the government should reduce its expenditure and mobilize revenue through domestic sources to invest in projects with a high rate of return to enable debts become self-financing and stimulate growth. To maintain debt ratios within a manageable threshold so as to avoid being debt trapped, is a crucial way forward. For a sustainable debt management, grants must be pursued first then foreign loans should only be contracted on concessional terms with say 50% grant component. In the ECOWAS region, external debt payments continue to grow year on year which consume large chunks of the annual budget. Calls for resolving the debt crisis could be heard across the globe. Jubilee Debt Campaign, a UK Social Justice Platform has renewed calls for IMF, World Bank and their wealthy backers to cancel the debt on impoverished third world countries. The Campaign noted that cancelling debt payments is the fastest way to keep money inside countries to free up resources to spend on urgent social and economic necessities given the global virus pandemic. It called on African leaders and civil society groups to come out speak in the open to demand ‘Paris Club’ countries, multilateral financial leaders – IMF and World Bank as well as China to cancel or considerably reschedule the mountainous debt set to trap resource-filled African countries into perpetual cycles of poverty. Governments need to show enough heart in their responses to poverty concerns, provide cash support to the masses as well as measures on job creation. For African governments to sustain growth will require economies to build institutional and human resource capacities, add value to the primary products, promote intra-African trade and build the capabilities to participate and compete in global trade markets.

Recommendation

The study recommends a more purposeful borrowing pattern and development of infant industries. In order to develop infant industries so as to reduce foreign borrowing, the government is encouraged to consider a partnership with foreign counterparts who have the expertise to develop certain natural resources that are yet untapped in some parts of the country. It has to be made clear that foreign debt is not too bad as it could spur growth when managed optimally. It is recommended that debt should not be for political campaigns but for the establishment of lucrative industries such as agribusiness and manufacturing industries. It is usually disheartening to observe that most foreign debts are incurred for political projects, white elephant projects and non-profit ventures. It is advisable to have revenue generation and economic development must be the focus in all manner of foreign borrowing. This goal can be achieved through adequate feasibility study required to establish the profitability of capital investment and the likelihood of realizing the goal before foreign borrowing is undertaken by the government. Projects financed by external debt must be able to generate revenues to remain self-financing towards the loan. Most failed capital projects have been as a result of lack of proper analysis of the projects and use of the right human resources in the right places. It is crucial to use the capable human capital, advocated in this study to drive the economy and to make proper use of borrowed funds for profitable capital investments. The study is also suggesting the revival of abandoned industries in the country. Some industries that are abandoned or dormant over the years can be revived to continue in business, employ local experts, and run profitably for exports, the oil refineries in Nigeria, steel industries across the continent, groundnut factories, fish sanitary cooler systems, fish processing plants, production of agricultural products and value addition – the tea, coffee and rice cooperatives, flours, flowers industries, among others. These have the capacity to generate sufficient revenue for the country and employing many jobless youths as well as helping in poverty reduction. The study equally suggests the revival of the textile industry which contributed about 15% of the manufacturing earnings to the GDP of many SSA countries and about 60% - 70% of the textile industry capacity in West Africa. The textile industry collapse led to textile importation of about N300 billion in Nigeria which results in the government losing over N75 billion unpaid duties each year due to massive smuggling (Olajide, 2019). As a result, deliberate decisions need to be taken to build local capabilities to produce, add value and trade with outside world and within the continent as a long-term solution instead of increasing debt with all its consequences.

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