



DANCING ON THE EDGE:
THE DYNAMICS OF EXTERNAL DEBT IN
THE UNITED STATES, SOUTH KOREA AND ARGENTINA.

SIVALINGAM SIVAKUMAR

Department of Politics, University of Adelaide.

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In recent years, the external debts incurred directly or indirectly by sovereign states have attained a renewed importance in the ongoing debates concerning various aspects of the global economy. The sheer magnitude of the debts involved, the apparent inability of many debtors to service these debts in a stable fashion, the vulnerability of the financial institutions which are the creditors, and the general intractability of the overall debt problem with no clear 'solutions' in sight, all serve to keep the external debt question in the spotlight.

This thesis is an examination of the experiences of three countries in handling their external debt burdens. The countries are the United States, South Korea and Argentina. The reasons for choosing these three cases for elaboration are detailed in the first chapter, but briefly, they are interesting because they represent three quite different sets of circumstances. America is, atypically, an advanced industrial country which is running up large deficits on trade and government spending which are both being financed, mainly, by external sources. Furthermore, America has had the luxury of not having to tailor its domestic economic policies to the wishes of foreign creditors, something which almost all other countries are having to do to a greater or lesser degree. South Korea is a newly-industrializing country with a large debt burden, but one which has had no trouble in meeting its obligations so far. The strategies it has pursued have paid off, but it may possibly be storing up problems for the future. Argentina is also industrializing

and has a large debt, but has already faced serious problems in keeping this debt serviced. Indeed, to many observers, the difficulties faced in handling these problems would appear to be intractable.

The thesis is divided into two parts. The first part consists of two chapters, which outline the background of the current problems with debt (Chapter One) and examine the positions of the commercial banks, central banks and international financial agencies involved (Chapter Two). The second part consists of three chapters, each examining one of the three cases. The emphasis in each of the cases is on those factors which are central to the dynamics of each country's external debt. This means that, in the case of the United States (Chapter Three), there is a concentration on the twin deficits of budget and trade. In the case of South Korea (Chapter Four), the emphasis is on the process of export-led industrialization and the push on to foreign markets. In the case of Argentina (Chapter Five), the concern is with the whole gamut of complications which arise from the inability to meet international financial obligations and, to some extent, the loss of control of the direction of domestic economic policy.

In addition to making judgements about each of the cases under study, the conclusion also draws out some of the themes which run through the body of the thesis. Judgements about the effectiveness of debt management strategies are reached and an attempt to formulate prognoses is made.

A central objective of the thesis is to demonstrate the inadequacies of current theoretical approaches to the whole question of external debt, approaches which are considered as part of the first chapter. Many of these were developed in times past when patterns in the global economy were more predictable and less volatile. At a time when exactly the opposite is true, these theories seem less and less valid. The problems of postulating new theoretical tools are compounded by the lack of clear understanding among development theorists of the actual state of play in global financial markets.

DECLARATION

I hereby certify that this thesis contains no material which has been accepted for the award of any other degree or diploma in any University and that, to the best of my knowledge and belief, it contains no material previously published or written by another person, except where due reference is made in the text of the thesis. I hereby consent to the thesis being made available for loan and photo-copying.

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Siva Sivakumar.

Adelaide, South Australia.

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