

Linkages between External Debt and Trade Openness on Economic Growth: Evidence from South Asian Countries

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Abstract : The research examines the relationship between external debt, trade openness and economic growth using the panel ordinary least square (POLS), fixed effect, and ARDL methods from period 1997 to 2021 for South Asian countries. The analysis result points out the negative impact of external debt on economic growth whereas; gross capital formation and trade openness have favourable influence on economic growth. Despite high borrowing rates, enhanced trade policies and improved institutional quality can help mitigate the negative effect of external borrowing on GDP Growth. Thus, the research provides a foundation for policymakers and government officials to make a strategy to increase economic development while decreasing the country's external debt.

Keywords: External Debt, Trade Openness, Economic Growth, Gross Capital Formation.

Introduction

The benefits of trade openness were questioned before the 1980s. However, after the 1980s, when countries began to demonstrate an interest in multilateral trade accords for economic cohesion, the old debate subsided. Trade openness is a trade liberalisation strategy that reduces trade barriers to make it easier and more comfortable for goods and services to move around the world. By removing trade barriers, trade liberalisation transforms the world into a global village, resulting in dynamic changes in economic activities at both the national and international levels. The IMF, the World Bank, and the World Trade Organization play essential roles in trade liberalisation (Shaheen et al., 2013). Trade openness significantly impacts a country's economic, social, and political life

since suitable trade policies provide economic benefits. Following the absolute and comparative advantages theories of economic growth, traditional economists argued that trade liberalization boosts productivity by reallocating resources. It results in enhanced economic growth. Over and above that, by disseminating information and technological advancement across national and international borders, trade openness promotes competition at both the national and international levels. Although it is widely accepted that trade liberalization is positively and significantly linked to economic growth. Yet, critics argue that the effect of trade policies on economic growth cannot be determined solely because they interact with other economic policies that significantly impact growth (Lewer & Berg, 2003). External debt, like trade openness, significantly impacts a country's economic progress. External debt and aid are common in emerging countries during their development phase as they are characterised by low per capita income, low savings, and huge current account deficits. Previously, until the 1970s, the Bretton Wood Institution and regional commercial banks of developing countries provided limited, concessional loans to developing countries for development initiatives. This was the "golden moment" for developing countries since most development initiatives were funded by local resources, and concessional loans from the international community were available to help these countries grow. Even though LDCs received foreign loans over these decades, they did not rely on them heavily for economic development. However, the situation changed dramatically after the 1970s, and external debt became a significant problem for developing countries. Though the external debt was acquired to enhance investment and economic progress, it has proven a roadblock to economic development. The increasing levels of debt adversely affected economic growth and play a significant role in restricting capital formation in developing countries (Kharusi & Ada, 2018).

Likewise, interest payments and repayment of external debt reduce investment, which is already low in underdeveloped countries. At the same time, a country with weak institutional system faces lack of investment and growth opportunities (Tiep et al., 2021). Some studies suggest that foreign borrowing benefits capital accumulation up to a certain threshold level (Gupta et al., 2005). Some other studies found that debt servicing reduces funds available for social sectors such as health and education (Fosu & Naudé, 2009), posing a development barrier. Although the purpose of taking external debt is to develop rather than be depressed, the burden of debt servicing eventually becomes a constant headache for developing countries; more debt becomes requirement to meet the debt obligation, trapping developing countries in "debt trap peonage". Debt is merely referring to a country's responsibility to make monetary payments. Nations borrow to improve economic development by reducing poverty and stabilising macroeconomic policies that, in turn, manage large unfavourable shocks and when this circle is

completed, it will positively impact people's living standards, which is a prerequisite for poverty reduction and economic progress (Okonjo-Iweala et al., 2003).

Regarding macroeconomic instability, the historical debt crises in emerging nations such as South Asia¹ have drawn considerable attention. The capital structure financing of any economy is determined by external debt, income, productivity and revenue, and lack of savings and investment.

¹South Asian Countries include Afghanistan, Bangladesh, Bhutan, India, Pakistan, Sri Lanka, Maldives, and Nepal.

Moreover, these issues have a crucial influence on forming inadequate internal capital in emerging South Asian nations. Consequently, economic development is challenged by the massive increase in public debt caused by the crises like global financial crisis in 2007-08 and European sovereign debt crisis in 2008 (Law et al., 2021). Increasing debt levels have a negative impact on a developing country's economic growth. Rising debt is a crucial issue limiting capital development in emerging countries like South Asia. In this regard, Tamimi and Mohammad (2019) suggested that generating reduced profits and long-term debt accumulation is to cause macroeconomic stagnation in the economy. As a result, a fall in public expenditures is visible owing to the decline in public expenditures caused by substantial external indebtedness. Due to the dominance of fiscal adjustments over social spending, the deficit in expenditures generates the debt necessary for future external financing (Ortiz and Sapena, 2020; Pradhan et al., 2016). However, nations with a potent institutional structure benefit from investment possibilities and economic development due to their foreign loans. In contrast, the overall negative impacts of debt-induced economic development are abundantly documented in the research (Mohsin et al., 2018). Therefore, the only way to punctually return the debts and earn a profit, is to develop a well-considered plan to use the funds (Law et al., 2021). For that, countries' degree of debt management may be determined by analysing supply and demand (Gopalakrishnan & Mohapatra, 2020).

Developing countries like South Asian countries have much concerned about macroeconomic instability (Mohsin et al., 2018). Due to the incapacity of South Asian nations to avoid defaults, the economy been significantly impacted by substantial foreign debt, and consequently, the economic development is affected. Ahead to this, indebted countries become unable to generate development and they likely fail on their debt commitments. Recent declines in investments and economic development have been noticed in South Asian nations due to their unclear foreign debt positions as a result the growth is declining and experiencing a slowdown in growth (Zuhroh & Pristiva, 2022).

In this perspective, the empirical assessment between external debt and economic growth yields useful insights. As a result of the unpredictability of their foreign debt situation, South Asian nations have seen a recent fall in economic growth and investment. Due to the incapacity of South Asian nations to avoid defaults, the growth has been significantly impacted by substantial foreign debt, and the nations are subsequently unable to satisfy their anticipated obligations. The empirical study between foreign debt and economic growth will provide valuable insights into this context (Alemzero et al., 2021). With the objective this study tries to examine the effect of trade openness on economic growth in south Asian countries and tries to investigate the link between external debt and economic growth in south Asian region. In the economic literature, while there is a high degree of agreement on the positive correlation between trade and economic growth, the same level of agreement does not exist for external debt and economic growth. Because of the empirical findings, the primary goal of this study is to determine if trade openness is positively associated to economic growth and what function foreign debt plays in a country's economic prosperity.

Literature Review

This section considers the existing research findings to present an in-depth evaluation of the impact of trade openness and external debt on economic growth before moving on to the empirical examination. The previous results present a hazy picture of the empirical benefits of international trade. The literature on whether increased exports lead to higher growth yields varied relationships between trade and economic growth (Giles & Williams, 2000). Although trade liberalisation benefits nations' income and growth, the outcomes are "country, time, and instance specific" (Goldberg & Pavcnik, 2007). Trade liberalisation accounts for about 5% of GDP growth, implying that a liberal trade policy is required to boost economic activity (Wacziarg & Welch, 2008). However, Keynesian economists believe that a liberal import policy will increase the trade deficit by increasing imports over exports (Bhagwati et al., 1998). Likewise, traditional neoclassical models emphasise that trade policy significantly impacts the steady state level of saving and capital accumulation by reallocating existing resources between sectors (Mattoo et al., 2003). Additionally, according to the Endogenous Growth model and Standard Partial Equilibrium trade theory, liberalisation facilitates the diffusion of technology, increasing export contribution to a country's economic development (Beck, 2002; Crawford & Laird, 2001; Goldar & Kumari, 2003; Hoque & Yusop, 2010). The literature evaluation portrays a general picture of the relationship between openness and growth. As a result, empirical research is required to assess the impact of trade liberalisation on economic growth of the South Asian countries specifically. Foreign debt is another major growth factor. Debt repayments became a major issue for less developed countries in the early 1980s as they

had lower saving rates magnitude. An increasing trend of foreign debt led to lower economic growth; many empirical studies have been undertaken to verify this relationship (Lane, 2004). Shabbir (2013) observed that the economic growth of developing countries has slowed as a result of debt repayment, which has limited the available cash for investment and tight terms and conditions placed a burden on these economies. They have a negative impact on economy since developing countries are unable to properly utilise debt in the short or long term (Adesola & Okwong, 2009). Furthermore, when funds are few, economic growth is slowed, impacting exchange rates, which cannot be adjusted fast. As a result, they lose competitors and business in the international market (Pattillo & Ricci, 2011).

On the other hand, external debt can be useful in identifying a country's potential but not in enhancing it. If, on the assumption that debt is paid, expenditure yields exceed the marginal cost of borrowing, the benefits of external debt can be achieved (Gill & Pinto, 2005). As a result of the availability and effective utilisation of foreign debt throughout the review period, the performance of the Nigerian economy improved (Trimurti & Komalasari, 2014). However, debt relief may become a burden if the government spends more on non-productive projects than productive investment. External debt combined with appropriate fiscal and monetary policies in transition countries positively affects the growth rate of these countries (Uzun et al., 2012). External debt and economic growth have been found to have no meaningful relation in several investigations (Mahdavi, 2004). As a result, the entire empirical literature on the relationship between debt and economic growth is ambiguous, demanding additional research to take an educated decision about debt. Because of the vague and unclear portrayal of external debt and trade openness on economic growth, there is a pressing need to investigate the relationship between these two variables. External debt, like trade openness, plays an important impact in a country's economic progress. Yet, the role of external debt on a country's economic development is questionable in the literature.

Research Methodology

The World Bank's World Development Indicators are used to analyse the data set of South Asian countries from 1997 to 2021. The variables used for the analysis are trade openness, total external debt service as a % of GNI, external debt stock, gross fixed capital formation and total external debt service as a % of GNI, as independent variable. The dependent variables, on the other hand, is real GDP growth. The long-term economic growth, which is driven by increase in productivity, makes economic growth go up. Exports and productivity are potentially, positively connected to economic growth. Good export performance increases income and economic growth, generally known as "export-led growth" in the literature (Pesaran et al., 2001). Despite this, the impact of debt on

economic growth is uncertain. It may have a negative impact on growth or deficit finance; fiscal policy is likely to have a beneficial impact on economic growth, according to Keynesians. In consideration to this, econometric modeling is used to determine how long-term and short-term symmetric and asymmetric factors influence economic growth, given the preceding assumption. As a result, the accountability of the variable's unit root process and co-integration becomes essential problem in time series analysis. Due to the inability to solve this issue, the co-integration of distinct unit root processes, which characterize the model's variables, generates an erroneous long-term result. This research employs panel unit root test and a pooled mean group estimate strategy, also referred as ARDL method of cointegration, for a balanced dataset. The most important characteristic of the ARDL methodology is that it does not presume all variables to be integrated in the same order. The variables may be integrated of order one $I(1)$, stationary at $I(0)$, or a combination of the both. The power of the cointegration test to identify cointegration among the variables is limited due to this property, which renders the usual cointegration procedures unstable. However, the ARDL technique to cointegration demands that the regressand be $I(1)$ and that explanatory variables not be integrated with orders greater than one (Ramzan & Ahmad, 2014). Similar to the static panel data analysis, the dynamic panel data analysis uses the PMG (Pooled Mean Group) estimate approach to provide uniformity to the coefficients, including short-term and long-term dynamics. This study also looks at how quickly the variables come together with an error correction term. So, the regression model of the following form is suggested:

$$\gamma = \alpha + \beta_1 x_1 + \dots + \beta_n x_n + \varepsilon \quad (1)$$

The ARDL techniques explains how explanatory variables affect economic growth. These methods have also been used in studies by Loayza and Ranciere (2006). The ARDL cointegration technique estimates both long-run and short-run parameters and may be employed without variable order integration (repressors can be purely $I(0)$, purely $I(1)$, or a combination of both). The ARDL bounds test employed in this study is as follows:

$$\begin{aligned} \Delta \ln EG_{it} = & a_0 + \sum_{i=1}^m \omega_1 \Delta \ln EG_{it-i} + \sum_{i=1}^m \omega_2 \Delta \ln GFCF_{it-i} + \sum_{i=1}^m \omega_3 \Delta \ln EDS_{it-i} \\ & + \sum_{i=1}^m \omega_4 \Delta \ln TDS_{it-i} + \sum_{i=1}^m \omega_5 \Delta \ln TEDS_{it-i} + \sum_{i=1}^m \omega_6 \Delta \ln TR_{it-i} + \phi_1 \ln EG_{it-i} \\ & + \phi_2 \ln GFCF_{it-i} + \phi_3 \ln EDS_{it-i} + \phi_4 \ln TDS_{it-i} + \phi_5 \ln TEDS_{it-i} + \phi_6 \ln TR_{it-i} \\ & + \varphi_{it} \end{aligned} \quad (2)$$

Where,

EG	GDP Growth
GFCF	Gross Fixed Capital Formation
EDS	External Debt Stocks
TDS	Total Debt Service
TEDS	Total External Debt Stocks
TR	Trade Openness

where the first-difference operator, ∇ , is constant, t is time element, ϕ_{it} is white noise error term, and it represents country at a specific time period. Through the MG approach, slope and intercept

are also varies among nations when analysed in a functional connection (Philippas & Avdoulas, 2020). The average parameters of all nations contribute to the determination of the group's long-run parameters (Demetriades & Rewilak, 2020). In contrast, the PMG technique assumes that the slope and intercept are the same across countries, and direct estimation is used to find the long-run group parameters (Younsi & Nafla, 2019). The models focus on how external debt affects economic growth by analysing the variables proposed by the Solow model, such as GDP growth, net external debt, gross capital formation, and trade openness.

$$GDP_{i,t} = \alpha_0 + \alpha_1 \text{Total External Debt}_{i,t} + \alpha_2 \text{Gross Capital formation}_{i,t} + \alpha_3 \text{Trade openness}_{i,t} + \epsilon_{i,t} \quad (3)$$

This model has proposed the direct effect of external debt stock on economic growth

$$GDP_{i,t} = \alpha_0 + \alpha_1 \text{Total_External_Debt}_{i,t} + \alpha_2 \text{External_Debt_stock}_{i,t} + \alpha_3 \text{Capital_formation}_{i,t} + \alpha_4 \text{Trade_openness}_{i,t} + \epsilon_{i,t} \quad (4)$$

Due to the small size of South Asia's domestic markets, it is important to export more goods and services to help the economy grow. Increasing exports of goods and services has a positive effect on growth. Similarly, stronger GDP growth is anticipated as a result of the rise in employment and earnings, which results from the expansion of the export sector and the external debt-oriented investment. In addition, the improved performance of the foreign currency-earning sectors where debt influences foreign exchange reduces the potential costs of strategic resource transfer associated with debt service. Therefore, a rise in external borrowing is managed by the better export earning capabilities and is influenced by growth and budget deficits. Moreover, when evaluating the actual resources of the economy, external borrowing is advantageous due to the foreign currency compared to domestic borrowing, which is in local currency. In the same way, the effect of the debt service, is included in the study to measure the gdp growth model (Vujanović et al., 2021).

$$GDP_{i,t} = \alpha_0 + \alpha_1 \text{External Debt}_{i,t} + \alpha_2 \text{External Debt stock}_{i,t} + \alpha_3 \text{External Debt service}_{i,t} + \alpha_4 \text{Capital formation}_{i,t} + \alpha_5 \text{Trade openness}_{i,t} + \epsilon_{i,t} \quad (5)$$

Results and Discussion

Descriptive statistics

The descriptive analysis illustrates the features of the data set of South Asia by generating the summaries. Bhutan is regarded as the nation with the highest average foreign debt (81.2 percent). The nation with the second-highest foreign debt, at 51.9 percent, is Sri Lanka; the country with the third-highest external debt, at 51.1 percent, is the Maldives; and Nepal (NPL), on average, has the fourth-highest external debt. In addition, Pakistan (PAK), India (IND), Bangladesh, and Afghanistan, all of which have an average foreign debt below 30 percent. Collectively the mean of total external debt stocks for South Asian country is 22.85 with standard deviation of 2.11. The descriptive statistics in Table-1 reveal that an annual average GDP growth rate of 1.64% generates a standard deviation of 0.62%. Accordingly, the mean with standard deviations is lower with most data of the variable in the provided table. In contrast, more substantial variability means are derived from data that are significantly dispersed. As a result, the outliers in the dataset have a greater impact on the variance means. Table -2 shows the detail about the multicollinearity in the model and represent considerably better approach than the simple correlation values. Similar to the dependent variable, the independent variable also contributes to estimated multicollinearity, and VIF values more than ten are subjected to further analysis.

Table 1 Descriptive Statistics							
Variables	Obs.	Mean	Max	Min	Std. Dev.	Skew.	Kurt.
GDP Growth	187	1.64	3.43	-2.11	0.62	-1.79	11.75
Gross Fixed Capital Formation	187	3.13	4.24	2.12	0.49	-0.05	2.53
External Debt Stocks	187	3.46	4.76	2.51	0.56	0.35	2.24
Total Debt Service	187	0.48	2.21	-3.03	1.13	-1.31	4.58
Total External Debt Stocks	187	22.85	27.10	18.59	2.11	0.03	2.07
Trade Openness	187	3.82	5.11	2.35	0.69	0.01	2.55
Author's calculation							
Table 2 VIF Statistics							
Variables	VIF				1/VIF		
Gross Fixed Capital Formation	1.054				0.948		
External Debt Stocks	2.347				0.425		
Total Debt Service	1.105				0.904		
Total External Debt Stocks	2.225				0.449		
Trade Openness	1.051				0.950		

Author's calculation

For econometric analysis to work the basic assumption of stationarity must be verified. This paper utilizes first generation unit root test which assumes that cross-section is cross sectionally independent. Null is the hypothesis of a unit root test. Among the unit root test, Levin et al. (2002) assumes common unit root across cross section units while Im et al. (2003) based on heterogenous cross section formation. Table 4 shows the stationary properties of the data. All variables are stationary at difference except GDP is stationary at level in the study.

Var. No	Variable	1	2	3	4	5	6
1	GDP Growth	1					

2	Gross Fixed Capital Formation	0.18	1				
		(0.01)*	-----				
3	External Debt Stocks	0.03	0.44	1			
		(0.61)	(0.00)*	-----			
4	Total Debt Service	0.05	0.49	0.67	1		
		(0.48)	(0.00)*	(0.00)*	-----		
5	Total External Debt Stocks	-0.07	0.08	-0.23	0.21	1	
		(0.30)	(0.22)	(0.00)*	(0.00)*	-----	
6	Trade Openness	0.22	0.53	0.63	0.69	-0.30	1
		(0.00)*	(0.00)*	(0.00)*	(0.00)*	(0.00)*	-----

Variables	At level		At Difference		Decision
	LLC	IPS	LLC	IPS	
External Debt Stocks	0.262	0.482	0.015*	0.041*	At Diff
GDP Growth	0.000*	0.000*	0.081*	0.037*	At Level
Gross Fixed Capital Formation	0.063	0.398	0.014*	0.027*	At Diff
Total Debt Service	0.706	0.352	0.036*	0.014*	At Diff
Total External Debt Stocks	0.840	1.000	0.012*	0.034*	At Diff
Trade Openness	0.345	0.581	0.008*	0.059*	At Diff

Author's calculation

Table 5 presents the results of panel regression which include pooled, fixed effect model and random effect model. In deciding to use whether fixed- effect or random effect estimation, Hausman test can be used (Hausman, 1978). The correlation between country effects and explanatory variables is an important issue that need to be considered while choosing between the two estimators. This study uses both fixed effect and random effect to enhance the findings. In all the three models, GFCF is insignificant, external debt stocks have negative relation with economic growth significantly. It means that when external stock increases it will decrease the momentum of economic growth. Other variables like trade openness, total debt stocks and total external debt stocks are positively related with the prosperity of the economy. Openness promotes economic growth. Increased trade openness between an economy and the rest of the world would result in increased economic competitiveness and productivity, indicating that the economy is operating well. Therefore, it is apparent that lowering foreign debt, movement in trade openness is necessary to boost economic development (Cheng et al., 2020).

Table 5 Results of Panel Regression			
	1	2	3
Variables	Coefficient	Coefficient	Coefficient
Gross Fixed Capital Formation	0.306 (0.32)	0.302 (0.36)	0.306 (0.32)
External Debt Stocks	-0.117 (0.00)*	-0.613 (0.00)*	-0.124 (0.00)*
Total Debt Service	0.288 (0.02)*	0.324 (0.01)*	0.289 (0.02)*
Total External Debt Stocks	3.085 (0.00)*	3.583 (0.00)*	3.094 (0.00)*
Trade Openness	0.815 (0.08)**	0.801 (0.17)	0.815 (0.09)**
C	1.384 (0.00)*	1.341 (0.00)*	1.383 (0.00)*
Author's calculation, p-values in parentheses, *represents 5%, ** represents 10%			

significance
1-Pooled OLS, 2-Fixed Effect, 3-Random Effect

The empirical results for ARDL model are shown in the table 6 and this finding is validated by the extracted findings in all the three models for the variables in the table 5. Furthermore, in the short run, GFCF, external debt stocks and trade openness have negative impact with the coefficient -1.92, -0.07 and -0.09, though the variable's p-value is insignificant, while total debt services and total internal debt stocks are positive with economic growth with coefficient value 0.12 and 0.31 with insignificant p-value. In contrast short run, GCF and total debt services are insignificant in long run with the coefficient value of 0.33 and 0.03. In the long run scenario, external debt stock has disadvantageous relation with economic growth. The coefficient value is -2.74, it means that 1% change in external debt stock, the economic growth affected negatively by 2.7 per cent. Total external debt stock and trade openness are positive and statistically significant. This study also finds that valuable or converging with economic growth per year with 73 per cent of correction. Moreover, long-term economic development is influenced more by a negative change in external debt than the positive ones, as shown in the table 6; hence, one per cent rise in debt levels has greater negative consequences than a 1 per cent rise in the trade openness. The negative repercussions of rapidly rising external obligations have been observed in the table 1. Consequently, a growth in foreign debt has a negative impact on investments, as investors anticipate economic and policy instability; this is an extreme example of the significant negative impact of rising external debt. However, a return on investment may or may not happen as a result of fewer uncertainties, stifling long-term economic development can be caused, because of ongoing debt accumulation.

Table 6 Result of ARDL Analysis				
	Short Run		Long Run	
Variable	Coefficient	Prob.	Coefficient	Prob
Gross Fixed Capital Formation	-1.925	0.28	0.339	0.46
External Debt Stocks	-0.706	0.14	-2.741	0.00*
Total Debt Service	0.120	0.28	0.031	0.86
Total External Debt Stocks	0.317	0.44	3.125	0.00*
Trade Openness	-0.093	0.91	1.109	0.01*
Constant	0.997	0.00*	-	-
Error Correction Term	-0.738	0.00*	-	-

Author's calculation, *represents 5% significance level

According to the results of this research, the link between debt and growth has a negative effect on GDP. In addition, the research demonstrates the long-term effects of foreign debt shocks, as revealed using a novel empirical model; as a result, a decline in GDP growth is visible. Consequently, the risk for a nation rises as the interest on its total foreign debt grows, as the ratio of external debt to GDP rises. The fall in family disposable income and savings reduces capital accumulation resources, hence slowing the pace of economic expansion. Similarly, the endogenous growth model validates the negative link between foreign debt and GDP growth shown by the Goodell and Goyal (2018). Therefore, governments should enhance their efforts to raise income in order to pay development expenditures rather than depending on risky debt for development.

GDP growth varies country to country, and so the effect of total external debt stocks and external debt. However, the effect of total debt stocks has no effect and total external debt stocks has a positive effects for South Asian countries. Additionally, the relationship between GDP growth and debt is country dependent, supporting our results with the perceptive developments. If a country chooses to expand its expenditure, neoclassical evaluation predicts that the government would crowd out private investment. Since future generations are expected to pay taxes and contribute to reducing the deficit, the government budget becomes insufficient. Consequently, this research highlights the significance of decreasing foreign debt and enhancing investment policies for investors and stakeholders in South Asian nations.

Conclusion

Long-term viability is crescent concerned about the potential for unpaid external responsibility. It is evident that implementing financial regulations that prohibit external debt borrowing is one method to fix this problem. In this perspective, this paper examines the connection between South Asian foreign debt, trade openness and economic growth. The data from the World Bank from 1997 to 2021 is analysed using the panel-root test, pooled OLS, Fixed effect, and ARDL model. The assessment considers Afghanistan, Bangladesh, Bhutan, India, Pakistan, Sri Lanka, Maldives, and Nepal. The research indicates the detrimental consequences of external debt on economic growth over the long run. Specifically, the linear model illustrates the uneven impact of foreign debt on economic development. According to estimates, a rising external debt shock has a far greater negative effect on GDP over the long term than a falling external debt shock. The empirical analysis shows opposing link between GDP growth and foreign debt, and a direct enforced correlation between the total external stock, gross fixed capital formation, trade openness and GDP growth. Hence's, this study's results have major policy implications, as its policy makers with an excellent chance to pay particular attention to vital capital features in order to enhance economic sustainability.

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