

LECTURE 7: INVESTMENT AND DEBT

A. Direct investment:

Companies can put money into investment projects in other countries in **private direct investment**. With free **cross-border capital flows**, they can **repatriate** their profits to their own country, or withdraw their investment altogether.

There is debate about whether governments should try to limit **capital inflows** and **outflows** with **capital controls** or whether they should follow the global trend towards **liberalization**.

Some economists say that too much liberalization leads to **instability** in a country's economy, with **foreign exchange crises** which lead to **devaluation** or **depreciation** - its currency becomes worth less in terms of others. For example, some say that China's growth has benefited from the fact that its currency is not freely **convertible**, thus avoiding the capital outflows that other Asian economies have suffered from at various times.

B. Borrowing:

The **International Monetary Fund (IMF)** and the **World Bank** play an important role in the development of less-developed countries. A main function of the World Bank is to lend money to countries so that they can obtain the conditions for economic growth. For example, it sponsors **infrastructure projects** - road building, water supply systems, etc. - and projects in health, education and agriculture.

But developing countries may build up **unsustainable** levels of debt and be unable to repay their debts. The IMF has debt reduction programmes for **Heavily Indebted Poor Countries (HIPCs)** that will reduce the amount of money that they owe. It also contributes to work on the **Millennium Development Goals** - specific targets relating to **poverty reduction** and the **stimulation of growth** in poorer countries.

C. Word combinations with 'debt':

Debt	<i>burden</i>	the amount of debt that a country has, seen as a problem
	<i>service</i>	making repayments on a debt
	<i>justice</i>	the idea that people should be treated fairly and equitably
	<i>rescheduling</i> <i>restructuring</i>	when lenders agree that a debt can be repaid in a different way or at a different time
	<i>relief</i> <i>forgiveness</i>	when lenders agree that debts do not need to be repaid

7.1. *Look at the expressions in A and B opposite. Put the sentences a-e in the correct order. (The first is a.)*

- a. A ban on capital controls is a bad trade-off.
- b. Meanwhile, import prices soar, spurring inflation.
- c. As money is withdrawn, like country's currency depreciates rapidly, which can lead to more investors pulling out in an effort to avoid losses.
- d. This vicious circle spells calamity for the country's economy: capital flows can be, and have often been, perilous.
- e. Because developing countries have relatively small financial markets and do much of their borrowing in dollars or euros, they are vulnerable to rapid financial outflows if creditors suspect difficulties in repayment.

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7.2. *Now match the expressions (1-10) to their definitions (a-j).*

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|-------------------|---|
| 1. Withdraw | a. a very dangerous |
| 2. depreciate | b. take out |
| 3. pull out | c. disaster |
| 4. soar | d. leave |
| 5. spur | e. easily affected by something negative |
| 6. vulnerable | f. cause |
| 7. perilous | g. lose value |
| 8. calamity | h. rising prices |
| 9. vicious circle | i. rise fast |
| 10. inflation | j. when a problem occurs that causes another problem to occur, and this process is repeated |

7.3. *Match the two parts of these extracts containing expressions from C opposite.*

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| 1. Under HIPC, countries have their debt | a. relief if the money saved is then spent on arms. |
| 2. The arrangement with Moscow benefits the West because it involves no debt | b. restructuring plan for developing countries. |
| 3. Half of Africa's governments pay as much per person in debt | c. burden cut to levels which the IMF and World Bank consider sustainable. |
| 4. There's not much point in debt | d. forgiveness and requires Russia to pay in a timely way and in full. |
| 5. Mozambique, which receives debt | e. service as they spend oil health and education combined. |
| 6. Brady bonds, named after former US Treasury Secretary Nicholas Brady, were created in the 1980s as part of a debt | f. rescheduling this month, will not be much better off. |

Over to you: Should the debt of developing countries be completely forgiven? Why / Why not? Write a letter to a national newspaper with your views.