We *affirm*,

Resolved: The United States federal government should prioritize reducing the federal debt over promoting economic growth.

Our sole contention is a Developing Debt Disaster.

The developing world is facing an impending debt crisis. **Moehr** '18 of the Atlantic Council writes that both Turkey and Argentina are set to experience a recession and, if no action is taken, these two countries could default on their debt, triggering widespread investor panic. Beyond these two countries, **Zumbrun** '18 of the Wall Street Journal writes the risk of a global crisis is rapidly rising, as over 45% of low-income countries are at a high risk of default, up from just 25% from 5 years ago. With comparatively poor levels of infrastructural development, and high social stratification, these defaults would push millions into poverty. For example, Nerb '14 of the Leibniz Institute for Economic Research articulates that when a similar crisis broke out in 1997, the living standards of millions plummeted and countries lost years of economic development in an instant.

At the heart of this looming disaster is the American debt crisis. When America borrows more money, it does so by selling more bonds. Patel '18 of the Financial Times explains that to fund the rapidly increasing deficit, the American government issued over $1 trillion of government bonds in 2018, flooding the global bond market with American treasuries.

This flood of treasury bonds has created the developing world's debt catastrophe in two ways.

First, by reversing investment flows.

Capretta '18 of the American Enterprise Institute emphasizes that just as American debt has exploded, so too has the supply of U.S. Treasury bonds. To global lenders, U.S. bonds represent the safest asset on the market, meaning with more American treasuries available for purchase, the supply of lenders for emerging markets has gone down dramatically as they shift to buy more U.S. bonds. Indeed, Patel '18 of the Financial Times continues that already, emerging economies are losing over $5 billion a week in investment due to the high levels of U.S. debt. Problematically, Edwards '18 of Business Insider **writes** that as the global supply of capital shifts away from emerging markets and towards U.S. Treasury bonds, it becomes impossible for markets like Turkey to find the lenders to finance their debt, pushing countries to the brink of default.

Second, by amplifying dollar-denominated debt.

Hicks '18 of US News writes that when the government issues more bonds to pay for the federal debt, interest rates on Treasury bonds skyrocket because the demand for loans rises. Indeed, Cebula '14 of Jacksonville University analyzes rates in America from 1971 to 2012, concluding that every 1% increase in the U.S. deficit has resulted in a 0.21% increase in interest rates on treasury bonds.

When interest rates rise in America, they amplify the debt problems of emerging markets. **Bartenstein** '18 of Bloomberg explicates that over two-thirds of debt held by emerging markets is dollar-denominated, meaning that these countries are borrowing in dollars, and not their own currencies. Unfortunately, Setser '18 of the Foreign Affairs Magazine explains that higher U.S. interest rates cause **lenders** to hike the interest rates on bonds in emerging markets, since they would need a higher return of investment in order to compete with the safer American treasuries. Overall, Forni '11 of the International Monetary Fund quantifies this effect, finding every 1% increase in the debt-to-GDP ratio in the U.S. results in a 0.1% increase in interest rates in emerging markets.

Higher interest rates are devastating for these economies; **Richter** '18 of Business Insider writes that through 2025, emerging markets will face $2.7 trillion in U.S. denominated debt that has to be paid off, so higher borrowing costs would make it significantly harder for countries to pay off its debt and heighten the risk that these countries default.

By prioritizing the reduction of the federal debt, the American government would necessarily borrow less, putting fewer treasuries on the market.

A vote for the aff prevents investors from fleeing emerging markets and drives down interest rates, thus making debt much more manageable for the world's most vulnerable countries.

Thus, **we *affirm***.

For Eli: https://www.imf.org/external/pubs/ft/wp/2011/wp11210.pdf

- Brazil
- Bulgaria
- Chile
- Colombia
- Croatia
- Estonia
- Hungary
- **India**
- Indonesia
- Latvia
- Lithuania
- Malaysia
- Mauritius
- **Mexico**
- Morocco
- Pakistan
- Panama
- Philippines
- Poland
- Romania
- South Africa
- Thailand
- Tunisia
- **Turkey**
- Uruguay

Cards:

Ole Moehr. “Turkish Outbreak: Risk of Emerging Market Contagion?” *Atlantic Council*, www.atlanticcouncil.org/blogs/econographics/turkish-outbreak-risk-of-emerging-market-contagion. Accessed 11 Jan. 2019.

The sheer size of Turkey and Argentina’s debt burdens make them stand out among their EM peers. Without further significant depreciation of the lira and peso, we expect the crisis to cause limited contagion to other emerging markets. **However, our baseline scenario is that both Turkey and Argentina will experience a recession. Failure to stabilize the currency in either country could trigger defaults and incite investor panic. A crisis of confidence could lead to large scale sell-off across EM, if market actors stop differentiating between risks and starts pricing assets away from their fundamentals.**

Moehr ’18 – portfolio flows into EM countries slowed from $13.7 billion to $2.2 billion in a single month due to the strengthening of US dollar from higher interest rates, puts countries like Turkey at risk of default

Moehr, Ole. “Turkish Outbreak: Risk of Emerging Market Contagion?” Atlantic Council. Sept. 2018. https://www.atlanticcouncil.org/blogs/econographics/turkish-outbreak-risk-of-emerging-market-contagion //RJ

With the strengthening of the US dollar in the wake of continued interest rate increases by the US Federal Reserve and brewing pressures in a number of emerging market (EM), **portfolio flows into EM countries slowed from $13.7 billion in July to just $2.2 billion in August. Companies and banks in both Argentina and Turkey borrowed heavily in dollar denominated debt while interest rates were low and are now faced with mounting debt burdens, which, if not backed by sufficient reserves puts them at risk for default if investors lose confidence**. The Turkish lira has fallen over 40 percent in 2018. **Its sharp decline in August raised concern of contagion to other markets**, as the Indonesian rupiah, the South African rand, and the Indian rupee have also come under pressure. This edition of the Econographic compares situation in Turkey with the Asian financial crisis in 1997, analyzes root causes of the current pressures in Turkey, and assesses the broader implications for EM economies.

Zumbrun ‘18 - debt distress currently, capital outflows at a pace not seen since ‘08 recession

Josh Zumbrun. “IMF Warns of Possible Emerging-Markets Crisis.” *The Wall Street Journal*, Dow Jones & Company, 10 Oct. 2018, www.wsj.com/articles/imf-warns-of-possible-emerging-markets-crisis-1539129600. Accessed 11 Jan. 2019.

In the IMF’s severe scenario, those flows could reverse, and outflows could reach 0.6% of gross domestic product. That would be “on par with the outflows seen during the global financial crisis,” the IMF’s Financial Stability Report said.

Though the scenario isn't inevitable, vulnerabilities are high. The IMF's measure of government-debt distress—in part a function of overall borrowing—is rising. Over 45% of low-income countries were at high risk of debt distress or already experiencing it, the IMF said, compared with only about 25% five years ago.

Capretta '18 – high U.S. debt has resulted in a diversion of significant amounts of global capital away from EM economies and into the purchases of U.S. Treasuries

Capretta, James. "US debt 'double whammy' unsettles emerging markets." American Economics Institute. July 2018. https://www.aei.org/publication/us-debt-double-whammy-unsettles-emerging-markets/ //RJ

Writing in the Financial Times in June, **India's central bank** governor Urjit Patel **complained of the destabilizing effects of a U.S. debt "double whammy"**: The Federal Reserve is ramping up its "balance sheet normalization" effort at just the moment when **the U.S. budget deficit has been widening due to previously unanticipated tax cuts and higher levels of federal spending. The result**, according to Patel, **has been a diversion of significant amounts of available global capital away from emerging market economies and into the purchase of U.S. Treasury securities. This, in turn, pushes down the value of emerging market sovereign debt instruments and increases inflationary pressures.** He urges the Fed to make a course correction.

Patel '18 – the substantial increase in issuing of US treasuries to finance our ballooning deficit has resulted in a sharp reversal of foreign capital flows, with emerging markets losing $5 billion a week

Patel, Urjit. "Emerging markets face a dollar double whammy." Financial Times. June 2018. https://www.ft.com/content/e193381a-64c1-11e8-bdd1-cc0534df682c //RJ

The upheaval stems from the coincidence of two significant events: the Fed's long-awaited moves to trim its balance sheet and a **substantial increase in issuing US Treasuries to pay for tax cuts. Given the rapid rise in the size of the US deficit, the Fed must respond by slowing plans to shrink its balance sheet**. If it does not, Treasuries will absorb such a large share of dollar liquidity that a crisis in the rest of the dollar bond markets is inevitable. Consider the scale of both events. Starting in October 2017, the Fed began reducing reinvestment of the coupons it receives from debt securities holdings. That shrinkage will peak at $50bn a month by October and total $1tn by December 2019. Meanwhile, **the US fiscal deficit is projected to be $804bn in 2018 and $981bn in 2019, implying net issuance by the US government of $1.169tn and $1.171tn, respectively, in the two years.** So, the withdrawal of dollar funding by the Fed, as it reduces its reinvestment of income received, is proceeding at roughly the same pace as that of net issuance of debt by the US government. Over the next few years, the government's net issuance will stabilise, albeit at a high level, whereas the Fed's balance-sheet reduction will keep rising. This unintended coincidence has proved to be a "double whammy" for global markets. **Dollar funding has evaporated, notably from sovereign debt markets. Emerging markets have witnessed a sharp reversal of foreign capital flows over the past six weeks, often exceeding $5bn a week. As a result, emerging market bonds and currencies have fallen in value. When the Fed announced the normalisation of its balance sheet, the full extent and details of the Trump tax cuts were not known. Both scale and timing of the US fiscal deficit have been a surprise to markets.**

Edwards ’18 – as the dollar appreciates, it sends other countries scrambling, unable to pay off their dollar-denominated debt; this triggers a contagion once one country defaults as investors pull out everywhere

Edwards, Jim. “The crisis in Turkey is being caused by the U.S. Fed, and we are only at the beginning.” Business Insider. Aug. 2018. https://www.businessinsider.com/turkey-lira-crisis-caused-by-the-us-fed-2018-8 //RJ

As the Fed takes in dollars, it reduces the supply of those dollars globally. The value of each dollar goes up as the supply declines. A relative appreciation in dollars is the same as a relative depreciation for everyone else. That is what you see on the chart below from Finviz. **In dollar terms, most other currencies are taking a big hit. Turkey has suffered more than everyone else — a 40% collapse in the lira — because its economy was built on high levels of deficit spending and "external" debt**. That works when times are good. If your own currency is gaining in value, then it becomes easier over time to pay off debts in foreign currencies. And it tempts you to take on more of this ever cheaper debt. You can keep an economy roaring along with that stuff. And Turkey was roaring, with 7% gross-domestic-product growth (compared with 2% or 3% in the US and UK). But while the Turks were enjoying their economic miracle, their gross external debt reached $466 billion, about 60% of GDP, according to the Bank of America Merrill Lynch analyst Ferhan Salman. **With the global tide of cash receding and the scarcer dollar going up, it is now much more difficult for Turkey to obtain the money it needs to pay its debts and finance its government spending. The cost of Turkey's dollar-denominated debt is going through the roof as the lira plunges. This is why you're hearing a lot of about "contagion" in emerging markets (small foreign countries, basically) and currency crises. This is why the Australian dollar is taking so many hits: The country does a lot of trade with China, Asia, and all those other Pacific nations**. The Australian economy is a train. There has not been a recession Down Under in twenty-six years. But it's using the wrongvdollar, so its currency now looks like this. **Economies that are doing just fine suddenly discover that their currency is no longer valuable enough to pay their bills. Recessions start like this. If one country can't pay its debts, people start pulling out of other countries like them. Russia and Brazil are on the weak end of that chart, and they are major economies. The last time something like this happened was the Russian financial crisis of 1998, in which the entire country defaulted on its debt.** Adding those two to the "crisis" list would be serious. It is not yet clear whether we're going to see a repeat of the emerging-markets crises of the late 1990s. These things are not guaranteed. Perhaps this time it will be different. But look again at that first chart of the Fed's balance sheet. The reason this is a truly scary moment in economics is that **we've already got Argentina and Turkey scrambling, and the Fed has only just begun. There is a long, long way to go.**

Hicks, Coryanne. “How the National Debt Affects You.” US News. Sept. 2018.

https://money.usnews.com/investing/investing-101/articles/how-the-national-debt-affects-you //RJ

More government bonds cause higher interest rates and lower stock market returns. As the U.S. government issues more Treasury securities to cover its budget deficit, the market supply of bonds increases. "When you have more of something, it gets cheaper," says Jim Barnes, director of fixed Income at Bryn Mawr Trust. **In bonds, cheaper means lower prices and higher interest rates.** For bondholders this is both a boon and a burden: New bonds will provide higher yields but the prices on old bonds will fall. For stock investors, higher rates are only a burden.

Cebula '14 – past empirics prove; our federal budget deficit has exercised a positive and statistically significant impact on interest rates over the period 1971 to 2012

Cebula, Richard. "Current Evidence on the Impact of Budget Deficits on the Nominal Interest Rate Yield on Intermediate-term Debt Issues of the U.S. Treasury: An Analysis with Robustness Tests." Jacksonville University. May 2014. https://mpra.ub.uni-muenchen.de/55923/1/MPRA_paper_55923.pdf //RJ

This study provides current, new empirical evidence on the impact of the budget deficit on the nominal interest rate yield on intermediate-term debt issues of the U.S. Treasury, represented in this study by **the nominal interest rate yield on ten-year Treasury notes**. The study is couched within an open-economy loanable funds model that includes an ex ante real short-term real interest rate yield, an ex ante real long-term interest rate yield, the monetary base as a percent of GDP, expected future inflation, the percentage growth rate of real GDP, net financial capital inflows, and other variables. **This study uses annual data and then uses quarterly data for the periods** 1971-2008 and **1971-2012**. The latter of these two study periods includes "quantitative easing" monetary policies by the Federal Reserve. **Two-stage least squares estimations reveal that the federal budget deficit, expressed as a percent of GDP, has exercised a positive and statistically significant impact on the nominal interest rate yield on ten-year Treasury notes, even after allowing for quantitative easing and other factors**. Robustness tests are provided in an Appendix.

Cebula, Richard. "Current Evidence on the Impact of Budget Deficits on the Nominal Interest Rate Yield on Intermediate-term Debt Issues of the U.S. Treasury: An Analysis with Robustness Tests." Jacksonville University. May 2014. https://mpra.ub.uni-muenchen.de/55923/1/MPRA_paper_55923.pdf //RJ

Reflecting upon the results for the budget deficit variable in all three estimates in Table 6 (for 1971.3-2008.4) and all three estimates in Table 7 (**for 1971.3-2012.4**), it appears that **for every 1% increase in the size of the budget deficit (as a percent of GDP), the nominal interest rate yield rises approximately 20-21 basis points**. This is comparable to the findings when the model was estimated using annual data.

Pesek '18 – the higher yields on treasuries is at a 7-year high; it's because of Trump's rising deficits that is cratering Asian currencies

Pesek, William. "Rising US Treasury yields a clear and present danger to Asia's emerging economies." South China Morning Post. Oct. 2018. https://www.scmp.com/business/banking-finance/article/2167166/rising-us-treasury-yields-clear-and-present-danger-asias //RJ

Not so anymore, **given last week's burst of chaos in the US Treasury market. On October 3, 10-year yields jumped 11 basis points to 3.16 per cent, the highest since 2011**. More than the magnitude, the worry for Asia is why the 15-year downward march in long-term rates may be over. Traders predictably grasped for explanations. News that Amazon's Jeff Bezos increased minimum hourly wages to US$15 seemed as good as any – a reminder that drum-tight labour markets could fan inflation. Others pointed to the Federal Reserve's tightening cycle. What's really going on: **the bond vigilantes are circling.** The reference here is to the mercurial cast of characters who protest fiscal or central bank policies they deem dangerous. The latter connection is a non-starter. **Given tame US inflation rates and latent trauma from the "Lehman shock" 10 years ago, it's hard to argue Jerome Powell's Fed is behind the curve. No, the real force threatening bondland is Donald Trump's fiscal irresponsibility**. Ten months ago, **the US** president's Republican Party **passed a US$1.5 trillion tax cut an already robust economy did not need. More recently, traders stewed over spending increases that will push Washington's budget deficit to the US$1 trillion mark, a near-unthinkable trajectory. The spectre of rising US yields is contributing to chaos from India to Indonesia to the Philippines, where currencies are cratering.** Part of the problem is where Trump assumes he can turn to finance America's shortfalls: Asia. China, especially. It is Washington's biggest banker, currently sitting on US$1.2 trillion of US government debt. An obvious paradox worries the vigilantes: Trump's trade war effectively seeks to bankrupt Beijing. China has already labelled Trump's tariffs on US$250 billion of goods and counting "blackmail."

Why support Washington's runaway profligacy? Two can play at this extortion game, President Xi Jinping no doubt realises. It's not that simple, of course. If Xi pulled the plug on Treasuries, the surge in yields would slam US consumers. The hit to Chinese exports would add to the pain from Trump's tariffs. Risks also cut the other way. If 10-year US rates approach the 4 per cent, 5 per cent or even 6 per cent level, Xi's government will be left with considerable paper losses – and some explaining to do to China's 1.4 billion people. **Trump's administration**, after all, **is making titanically large deficits** great again. He is putting Washington's balance sheet on the trajectory of a pre-1997 Asian tiger. **That**, in turn, **is helping transport Indonesia and the Philippines back towards that dark period. That helps explain why long-term US yields are at a seven-year high.** The shape of the so-called yield curve, a line that plots rates from short-duration to long, is now almost flat. That, says Will Denyer of Gavekal Research in Hong Kong, gives investors few good incentives to buy longer-dated Treasuries. If this rationale leads to higher 10- and 30-year debt, Asia could be in for a rough fourth quarter. Yasuo Sakuma, chief investment officer at Libra Investments in Tokyo, adds that rising US yields are shaking world markets and contributing to a plunge on tech stocks, which tend to have high price-to-earnings ratios. **The bond vigilantes are just beginning to reassert themselves as Trumponomics imperils Washington's remaining AAA credit ratings. That vicious cycle is a clear and present danger to Asia's export-led economies and markets already on edge. A spike on US yields really could not come at a worse time for this region's emerging economies.**

Bartenstein '18- EM worst point since 08', only rebounded bc less debt, ⅔ of emerging market debt is dollar denominated

Ben Bartenstein. *Bloomberg.com*, Bloomberg, https://www.bloomberg.com/news/articles/2018-05-16/harvard-s-reinhart-says-emerging-markets-worse-than-08-crisis. Accessed 10 Jan. 2019. //TP

The Cuban-born economist points to mounting debt loads, weakening terms of trade, rising global interest rates and stalling growth as reasons for concern. In fact, developing nations are worse off than during their two most recent moments of weakness: The 2008 global financial crisis and 2013 taper tantrum, when equities endured routs of 64 percent and 17 percent respectively.

"If the U.S. policy becomes tighter and there's no comparable follow-through by other advanced economies, the dollar strengthens. There you have a double-whammy. Also importantly is what it does to their currency: More than two-thirds of emerging-market debt is dollar-denominated, now even more because of borrowing from China."

"There's a whole range of sub-Saharan African and Middle Eastern countries that have become indebted to China. It's a very opaque area. Countries like Angola, if you factor in Chinese loans, their external debt is 20 percent higher than what official data suggest. It's to be expected after a decade of ultra-low interest rates when you had a lot of incentives to borrow and now when rates start to rise and there's the reversal in the dollar again, the vulnerabilities start to pile up."
"**Lower income EM countries will have a lot of debt servicing difficulties**. You're dealing with China in a lot of these cases and they're very opaque. You wonder whether they're already restructuring some debts."

EM rebounded super-quick after the great financial crisis and an important element of that had to with they had very little external debt. They were at their low point. You had the Mexican crisis and that generated turmoil in Latin American and then the Asian crisis and the Russian crisis and then Argentina. By then, because of the crises, everyone had deleveraged.

Setser '18 – high interest rates in America due to the ballooning deficit is reducing lenders' willingness to invest in government debt in emerging markets, forcing governments to face higher borrowing costs

Setser, Brad. "U.S. Deficits Are Hurting Emerging Markets." Foreign Affairs Magazine. July 2018. https://www.foreignaffairs.com/articles/2018-07-03/us-deficits-are-hurting-emerging-markets //RJ

Over the last few months, the United States has embarked on an unusual policy experiment. At a time in the economic cycle—judged by the unemployment rate—**when the fiscal deficit typically falls, Congress has passed tax cuts and spending increases that will raise it by about two percentage points of GDP**. **In 2019, the U.S. budget deficit is projected to reach five percent of GDP**. Analysts expect that **without major policy changes, it will stay at or above that level for the next decade.** The United States now has the loosest fiscal stance of any of the G-7 countries. Yet there is little doubt that it will be able to raise the funds it needs to finance its deficits. Most of the large economies in Europe and East Asia set aside far more than they invest at home, generating over a trillion dollars a year in spare savings that they need to lend out. **With interest rates rising in the United States** while they remain below zero in Japan and most of Europe and low in South Korea and Taiwan, **the prospect of lending to the United States remains attractive**. Even Italian bonds, which have fallen in price thanks to the country's political turbulence, offer a worse return over ten years than U.S. Treasuries. But **the effects of the U.S. deficit go beyond the United States**. Thanks to the dollar's outsize global role, **the first casualities of a somewhat irresponsible U.S. fiscal policy are likely to be emerging economies that have used the dollar to denominate their debts**, not the United States itself. A stronger dollar and **rising U.S. interest rates are increasing the burden of paying all dollar-denominated debts around the world**. After the 1997 Asian financial crisis, many countries recognized that using the dollar—or another foreign currency—for lending and borrowing was a major source of financial vulnerability. The burden of repaying foreign currency debt rises when a currency falls, thus making a weaker currency a financial risk. Over the last 20 years, several countries have successfully reduced their vulnerability. The governments of many emerging-market countries now borrow primarily in their own currency, and many banks in those countries do the same. Yet progress hasn't been uniform: the countries that have gone furthest in this direction tend to be those that are a source of surplus savings, not those that need to borrow from the rest of the world, as those countries often have limited domestic savings and domestic banking systems that are crimped in their ability to lend. That has opened up some emerging economies to trouble. Emerging economies that export oil are doing fine for now, despite rising U.S. interest rates and a stronger dollar, even if they have strong links to the dollar. Thanks to the rise in the price of oil, each barrel of oil they export generates far more hard currency than a year ago. The risk comes among those emerging economies that import oil, have lots of domestic dollar deposits, and have borrowed heavily from the rest of the world in dollars. That is because **the rising value of the dollar makes it more expensive for firms in these countries to pay back loans they have taken out in dollars. Rising U.S. interest rates also make risky assets, including government debt in emerging-market countries, less attractive, so many governments face higher borrowing costs.**

Forni '11 – spillover effects of advanced economy debt is that borrowing costs on smaller countries will rise, and these countries are more prone to sovereign risk

Forni, Lorenzo. "Public Debt in Advanced Economies and its Spillover Effects on Long-term Yields." International Monetary Fund. 2011. https://www.imf.org/external/pubs/ft/wp/2011/wp11210.pdf //RJ

The spillover effect from large advanced economies operates mainly through changes in the risk free rate. In the case of small open economies **an increase in the debt ratio of large advanced economies will also affect their sovereign spreads. The impact of an increase in large economies' debt on small open ones** (such as most emerging economies) **will have to take into account the fact that these economies have been in the past more prone to sovereign risk.** An increase in large economies' debt will tend to increase not only the global risk free rate but also their spreads. **Indeed, yields in small open economies will increase more than the global risk free rate as investors need to be compensated for the probability of a sovereign credit event**.3

Forni '11 – this study has the largest sample size of any study relevant to EMs

Forni, Lorenzo. "Public Debt in Advanced Economies and its Spillover Effects on Long-term Yields." International Monetary Fund. 2011. https://www.imf.org/external/pubs/ft/wp/2011/wp11210.pdf //RJ

Eventually, **our sample includes 53 economies, 28 of which are AEs and 25 are EMEs**, and about 280 observations for EMEs and 430 for AEs.9 To the best of our knowledge, **this is the largest sample considered in term of the number of countries for this type of analysis.**

Forni '11 – a 1% incr in Debt-GDP ratio in US leads to a .1% increase in interest rates in emerging markets

Forni, Lorenzo. "Public Debt in Advanced Economies and its Spillover Effects on Long-term Yields." International Monetary Fund. 2011. https://www.imf.org/external/pubs/ft/wp/2011/wp11210.pdf //RJ

The results—reported in Table 2a—**point to a significant spillover effect from increases in global debt ratio (past a threshold) on the EMEs' long-term real rates**. The one-year-ahead average expected G20-advanced debt-to-GDP ratio appears to have a U-shaped relationship with the long-term real yields in the EMEs. It starts exerting upward pressure on EMEs' yields after the threshold value of 77½ percent of average public debt- to-GDP ratio, while its median value in 2010 was 89 percent. At the 2010 median value, **the effect of a one percent of GDP increase in average AE debt on EME long-term real rates is about 10 basis points**. **Similar results hold for the one-year-ahead expected US gross general government debt-to-GDP ratio**. At the 2010 U.S. expected debt ratio (a value of 97 percent) **an additional increase of 1 percent of GDP US expected debt ratio would lead to an increase of about 10 basis points**23. EA-4 debt ratio, on the contrary, appears not to have a relevant impact on the long-term real yields of EMEs. First, coefficients are not significant or significant only at the 10 percent level. And Second, in the IV specification EA-4 debt enters with an inverted U shape with a threshold at about 71 percent of GDP. At the 2010 debt ratio (76 percent), a 1 percent of GDP increase in the EA-4 debt would slightly reduce EME real yield

Edwards '18 – as the dollar appreciates, it sends other countries scrambling, unable to pay off their dollar-denominated debt; this triggers a contagion once one country defaults as investors pull out everywhere

Edwards, Jim. "The crisis in Turkey is being caused by the U.S. Fed, and we are only at the beginning." Business Insider. Aug. 2018. https://www.businessinsider.com/turkey-lira-crisis-caused-by-the-us-fed-2018-8 //RJ

As the Fed takes in dollars, it reduces the supply of those dollars globally. The value of each dollar goes up as the supply declines. A relative appreciation in dollars is the same as a relative depreciation for everyone else. That is what you see on the chart below from Finviz. **In dollar terms, most other currencies are taking a big hit. Turkey has suffered more than everyone else — a 40% collapse in the lira — because its economy was built on high levels of deficit spending and "external" debt**. That works when times are good. If your own currency is gaining in value, then it becomes easier over time to pay off debts in foreign currencies. And it tempts you to take on more of this ever cheaper debt. You can keep an economy roaring along with that stuff. And Turkey was roaring, with 7% gross-domestic-product growth (compared with 2% or 3% in the US and UK). But while the Turks were enjoying their economic miracle, their gross external debt reached $466 billion, about 60% of GDP, according to the Bank of America Merrill Lynch analyst Ferhan Salman. **With the global tide of cash receding and the scarcer dollar going up, it is now much more difficult for Turkey to obtain the money it needs to pay its debts and finance its government spending. The cost of Turkey's dollar-denominated debt is going through the roof as the lira plunges. This is why you're hearing a lot of about "contagion" in emerging markets (small foreign countries, basically) and currency crises. This is**

why the Australian dollar is taking so many hits: The country does a lot of trade with China, Asia, and all those other Pacific nations. The Australian economy is a train. There has not been a recession Down Under in twenty-six years. But it's using the wrongvdollar, so its currency now looks like this. **Economies that are doing just fine suddenly discover that their currency is no longer valuable enough to pay their bills. Recessions start like this. If one country can't pay its debts, people start pulling out of other countries like them. Russia and Brazil are on the weak end of that chart, and they are major economies. The last time something like this happened was the Russian financial crisis of 1998, in which the entire country defaulted on its debt.** Adding those two to the "crisis" list would be serious. It is not yet clear whether we're going to see a repeat of the emerging-markets crises of the late 1990s. These things are not guaranteed. Perhaps this time it will be different. But look again at that first chart of the Fed's balance sheet. The reason this is a truly scary moment in economics is that **we've already got Argentina and Turkey scrambling, and the Fed has only just begun. There is a long, long way to go.**

Nerb '14 – millions' living standards worsened and economic development for set back for years

Nerb, Gernot. "How Can the Crisis Vulnerability of Emerging Markets Be Reduced?" Leibnez Institute for Economics Research. May 2014. https://www.cesifo-group.de/DocDL/ifo_Forschungsberichte_65.pdf //RJ

When the Thai Baht first came under attack in July 1997, currencies and asset prices plunged throughout Asia, as capital (of around 100 billion US dollars) fled from countries once favoured by international investors. In 1997/98 Asian economies experienced the so-called twin (or triple) financial crisis – a type of crisis in which currency and banking woes are combined (see also Kaminsky and Reinhart, 1999; Hahm and Mishkin, 2000; Koo and Kiser, 2001). The Asian crisis, like the Latin American debt crisis of the 1980s and the Mexican crisis of 1994/95,4 had a broad and devastating impact in the entire region (and particularly in Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand): the open financial markets of these countries sparked a plunge in their currencies, stocks and other assets and severely damaged some of their financial institutions. **Economies contracted and the living standards of millions of people worsened. Economic development was set back for years in some countries.**

Richter '18 - trip to default risk rising and speeding up

Richter, Wolf. "Emerging Markets Are about to Suffer the Consequences of Dollar-Denominated Debt Binges." *Business Insider*, Business Insider, 15 Aug. 2018, www.businessinsider.com/emerging-markets-suffer-after-dollar-debt-binges-2018-8. Accessed 11 Jan. 2019.

That recent surge in the dollar makes dollar-denominated debt across the emerging economies harder to service. After the collapse of the Turkish lira and the Argentine peso, this is particularly the case for dollar-debt and other foreign-currency debt in those countries.

Over $200 billion of USD-denominated bonds and loans, issued by emerging market governments and companies will come due during the remainder of 2018, according to the Wall Street Journal. About $500 billion will come due in 2019. They will need to be paid off or refinanced.

When financial conditions in the emerging markets get tight, some economies will find it difficult to pay off or refinance that debt because dollar investors are going to be leery and would want to be compensated for large risks - a consideration that was absent as little as a year ago, when Argentina was able to sell 100-year dollar-bonds. As far as these bondholders and creditors are concerned, it will take either an IMF-bailout to make them whole, or a default. Argentina has already made a deal with the IMF to bail out its bondholders.

Through 2025, emerging market governments and companies face $2.7 trillion in USD-denominated bonds and loans that will come due and have to be paid off or refinanced. This does not include euro and yen-denominated debt, of which these countries also have a pile.

For example, in April this year, the Mexican government was able to sell ¥135 billion ($1.26 billion) in "samurai bonds" with maturities of five, seven, 10 and 20 years, at what the Ministry of Finance termed"a historically low cost."

In terms of the USD-denominated debt as percent of GDP - not including other foreign currency debt - Turkey is on the forefront, followed by Argentina, according to a report by Krishen Rangasamy, Senior Economist at Economics and Strategy at NBF. These two countries have gotten hit not only by the USD-appreciation but more importantly by the separate collapse of their own currencies. Citing data by the Bank for International Settlements, he writes that in Turkey, USD-denominated debt by non-bank borrowers "hit a record $195 billion at the end of 2017, or a stunning 23% of GDP."

Turkey also has a heavy load of euro-denominated debt, and its total foreign-currency debt now amounts to over 50% of GDP.

Total foreign-currency denominated debt also amounts to over 50% of GDP in Argentina, Hungary, Poland, and Chile, according to the Wall Street Journal, citing Deutsche Bank.

A country like Turkey can destroy its own currency and thus diminish the burden of its local-currency debt. But it cannot do this with foreign-currency debt. Instead the reverse is true: **Foreign-currency debt becomes more burdensome. And this creates a vicious cycle; as this debt becomes more difficult to service, the default risk rises, and foreign currency investors are then even more inclined to stay away, leading to more capital outflows, and making it nearly impossible to refinance and service that debt - thus speeding up the trip to a default.**