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Chairman: Mr. Narciso G. REYES (Philippines).

AGENDA ITEM 12

Report of the Economic and Social Council [chapters III to VII, VIII (sections A to E), IX to XIV, XXI and XXII] *(continued)* (A/8403; A/8403/Add.1 (parts IV and V); A/C.2/L.1165/Rev.1, A/C.2/L.1180, A/C.2/L.1209)

1. Mr. ASANTE (Ghana) said that the sponsors of the draft resolution (A/C.2/L.1165/Rev.1) had received many excellent suggestions from various delegations whose countries were experienced in the debt-servicing problem and had tried to incorporate as many of them as possible in the revised draft, which nevertheless did not pretend to be comprehensive. He commended it to the Committee for unanimous adoption.

2. Mr. SANTA-CRUZ (Chile) recalled that his delegation had submitted an amendment (A/C.2/L.1209) which was designed to acknowledge that the deterioration in the terms of trade was aggravating the debt burden of the developing countries. He hoped that the sponsors of the draft resolution would be able to accept it.

3. Mr. RANKIN (Canada) withdrew his delegation's amendments (A/C.2/L.1180).

4. Mr. HILLEL (Israel) said that the draft resolution was very timely. The debt burden in the developing countries had increased by an annual average of over 13 per cent during the First Development Decade, exceeding the 9 per cent growth rate of the export earnings from which the debts had to be repaid. The last report of IBRD showed that the debt-servicing obligations of 80 less developed countries had increased more than twice as fast as their export earnings in 1970.

5. As his delegation had frequently pointed out, if the trend continued, the soaring debt accumulation would soon nullify even the existing small volume of capital inflow to the developing countries. Everything possible should be done to provide assistance of the type given by the International Development Association and to change the World Bank's high interest rate policy.

6. His delegation therefore welcomed the seventh preambular paragraph and operative paragraphs 2 and 3. It attached particular importance to the last preambular paragraph, which referred to the need to provide development aid on concessionary terms and to reschedule and refinance existing debts on appropriate terms and conditions.

7. In connexion with operative paragraph 5, his delegation underlined the importance it attached to the need to improve statistical data on foreign borrowings. In spite of the considerable assistance given by international institutions in that respect, there was still room for improvement, and both individual developed countries and the more advanced developing countries could help.

8. Mr. HEDDA (Tunisia) recalled that the International Development Strategy laid down objectives, methods and guidelines, together with target figures. The developing countries would do their best to attain and even exceed those objectives, but could they be sure of having the necessary resources to do so in view of their heavy debt-servicing burden? Their import earnings were constantly dwindling, while the prices of their imports were increasing and their currency reserves were jeopardized by the present wave of international speculation.

9. The debt of 80 developing countries had gone up from $21,500 million in 1961 to $59,000 million in 1969 and was still rising. The average rate of interest and amortization for the developing countries was higher than their income growth rate (5 per cent and 9 per cent respectively). They were powerless to prevent the continual deterioration in the terms of trade and the decrease in the price of their exports--mainly raw materials and agricultural products--while the price of essential manufactured imports continued to rise, thus frustrating all their efforts. They had little hope of succeeding in their development plans when they could not even be sure that the price of gold or the purchasing power of their reserves would be maintained. Little attention had been paid to the consequences for the developing countries of the devaluation or revaluation of reserve currencies and on that point he drew attention to the laudable decision of the International Monetary Fund to associate the developing countries with any reform of the international monetary system.

10. Other factors had serious effects on the increasing debt burden of the developing countries, among them external loans which were vital to economic development but were now being extended for increasingly shorter terms at rates that had risen from 4 to 5 per cent to 8 to 10 per cent. Suppliers' credits were replacing government credits; developing countries were obliged to contract tied loans for terms of 3 to 5 years for investments that normally required much longer periods. It was almost impossible to find any developed country which granted untied credit: developing countries were obliged to borrow from lenders who imposed their products and prices, and interest rates and repayment periods thus had little meaning.

11. The debt-servicing burden of the developing countries was increasing dangerously. A firm in a developed country

could borrow easily, even at 10 per cent, but no developing country could do so without going bankrupt. True, money was expensive, but the same rates and terms could not be applied to firms in the rich countries and firms in the poor ones, the latter not being equipped to face the implacable law of the market.

12. If the aims of the Second Development Decade were to be attained, rapid and effective action was therefore needed. It was the duty of the developed countries to consider the alleviation of debt servicing as a legitimate form of aid. New loans should be facilitated by softening their terms and decreasing interest rates. Logically, each case should be dealt with on its own merits, but the present and foreseeable level of debt servicing should be viewed in a wider perspective and in an appropriate multilateral context. The international community must not wait for a crisis before tackling the problem, which must be dealt with in conjunction with the general problem of development.

13. His delegation appreciated the co-operation and understanding of the representatives of Canada and the Netherlands in preparing the draft resolution, of which it was a sponsor.

14. Mr. SANTA-CRUZ (Chile) said that his delegation was in favour of the draft resolution for the reasons so cogently given by the Tunisian representative. Recent United Nations statistics showed that the total debt of the developing countries amounted to some $68,000 million. Debt servicing was actually resulting in a net transfer of capital from the developing to the developed countries.

15. Chile had just begun to reschedule its debts, which amounted to more than $3,000 million, with a service burden of $400 million or 40 per cent of its foreign exchange earnings. At a time when such earnings were very low, when the price of raw materials had decreased and when inflation in the developed countries had led to a sharp rise in the cost of essential capital goods that had to be imported, Chile naturally felt that a draft resolution such as A/C.2/L.1165/Rev.1 was urgently needed.

16. There were, however, substantive matters that were merely hinted at in operative paragraphs 1 and 2. So long as access to the markets of the developed countries for the products of the developing countries was limited, the problem would remain. Only a radical change in the trade system could enable the developing countries to pay back their debts. Also involved were the terms of debt financing and the need to eliminate tied loans. Agreement in principle had been reached on that point at the second session of UNCTAD and in the Trade and Development Board, but no definite commitments had yet been made. The draft resolution appealed to UNCTAD to deal with the matter and he urged the Committee to adopt it unanimously, together with the amendment submitted by his delegation.

17. Mr. FLEMING (Argentina) said that the problem of the increasing burden of debt service was serious for all countries. The rise in the cost of capital goods and the fall in the prices of raw materials only added to the problem. He agreed with the representatives of Chile and Tunisia that the problem should be solved urgently within the context of the International Development Strategy.

18. Although most countries had accepted the target of 1 per cent of their gross national product for aid, only six countries—Australia, Belgium, France, the Netherlands, Portugal and the United Kingdom—had reached that target, but the 1 per cent should be more evenly distributed among the developing countries as a whole.

19. Although he did not reject the Canadian amendments to the draft resolution he preferred the original draft, because it expressed more clearly the aspirations of the developing countries. The third preambular paragraph of the revised text was vague, whereas in the original draft it had been more precise. He questioned the validity of the sixth preambular paragraph and suggested that the inappropriate granting of export credit financing had also added to the burden of debt service. His delegation also preferred the original drafting of operative paragraph 1; all countries were having difficulty in servicing their debts and the conditions should be improved. Operative paragraphs 2 and 3 were significant and his delegation supported them. With regard to paragraph 6, it was important to know in what form and when such information would be received. His delegation believed that information should be provided for the twenty-seventh session of the General Assembly and for the third session of UNCTAD.

20. He would vote in favour of the draft resolution, but reserved the right to speak again, if necessary.

21. Mr. HEMANS (United Kingdom) said that the draft resolution had been very much improved as a result of the flexible attitude of the sponsors. His delegation could now support it but considered that, as a whole, it was too general, since it treated the burden of debt servicing on a global basis, whereas the burden affected different countries in different ways. Each case should be considered on its own merits. His delegation was glad to see that operative paragraph 1 had been amended to take that idea into account. Greater emphasis could have been placed on the responsibility of recipient Governments for the level of uptake of hard credits. Many developing countries could easily absorb increased flows of commercial credits on normal terms. In that context, he quoted the 1971 annual report of IBRD which said that the size of a country's external debt indicated the extent to which foreign nations were willing to assist it by extending credit rather than the size of its problems; the rapid growth rate of external debts was not indicative of a problem in itself. His delegation considered that to be a sound and balanced approach.

22. The volume of concessional aid was inevitably limited and it was necessary to consider carefully the implications of diverting it to the relief of debt burdens. Although his delegation agreed that development assistance should be provided on appropriate terms, and his country had provided 84 per cent of its aid programme loans interest-free in 1970, it was unrealistic to expect better terms to have more than a marginal effect on the relief of indebtedness, since foreign aid accounted for only about 15 per cent of the foreign exchange resources of the developing countries.

23. In conclusion he emphasized the danger to international aid and trade flows that would arise if debt relief was provided on an automatic basis.

24. Mr. MASSONET (Belgium) said that his delegation would vote for the draft resolution. However, he wondered whether it was possible for international organizations to identify the policies to be pursued by debtors and creditors as stated in operative paragraph 2. He agreed with the United Kingdom and French representatives that the problem could only be solved on a case-by-case basis.

25. Mrs. DERRE (France) said that her delegation was well aware of the external debt problem and, while approving of the draft resolution as a whole, she had certain comments.

26. Contrary to the implications of the first preambular paragraph, France had considerably improved the terms of its loans to the developing countries and was the largest contributor of government aid. With regard to operative paragraph 2, she pointed out that the debt capacity of a country was dependent on many factors. Furthermore, there were differences in the cost of capital in the lending and receiving countries. Her delegation therefore agreed with those of the United Kingdom and Belgium that there could be no universal policy for avoiding crises and that each case should be treated individually. Her delegation agreed with the provisions of paragraphs 4 and 5. The developing countries should bear in mind that the authorities of the donor countries had to cover any losses they sustained and might not be able to increase their aid to the developing countries.

27. Mr. SKOGLUND (Sweden) said that his Government would have preferred a reference in the operative part to the proclaimed target for official development assistance in the International Development Strategy. His delegation would nevertheless vote in favour of the draft resolution.

28. Mr. ALULA (Ethiopia) said that the terms of loans were often too harsh for the developing countries, which frequently had to request further credits to pay off their debts instead of using the loans for development. Most development loans were tied to certain industries or research services, the cost of which was heavy and which were not competitive in an open market. The donor countries should try to make assistance available in such a way that it achieved its purpose. Assistance was useless unless it led to development. The terms and conditions on loans were so stiff that they could not be described as aid; they merely increased the debt burden. Many countries were cautious in borrowing because it led to such heavy debt. Unless constructive measures were taken, the Second Development Decade would not achieve the 6 per cent minimum growth rate target.

29. He regretted that the sponsors had not referred to the interests of the developing countries as stated in the Lima Declaration. He called upon international institutions and the developed countries to take into account the conclusions of the Lima Declaration in dealing with the burden of debt servicing.

30. Mr. ZAGORIN (United States of America), referring to the third preambular paragraph of the draft resolution, said that his delegation did not consider debt relief a means of increasing aid. The World Bank and UNCTAD were already mentioned in operative paragraph 2, and he proposed adding a reference to IMF, which had expert knowledge in the area and had played a prominent role in debt relief operations. With those observations, his delegation would support the draft resolution if its amendment was accepted.

31. Mr. GATES (New Zealand) said that the draft resolution was a useful step. He agreed that the problem of debt servicing had to be dealt with on a country-by-country basis, but there were certain features common to the problems that faced the developing countries.

32. A comprehensive report, submitted to the annual meeting of the World Bank in September 1971, showed that the external debt of developing countries had grown at an average annual rate of 14 per cent between the mid-1950s and 1969. It also pointed out that the growing indebtedness of developing countries was not in itself a reason for concern, since it was the counterpart of the real resources made available to them. One of the aims of international policy was, after all, to enlarge the flow of external capital to the developing countries; nevertheless, the ratios of debt service payments to foreign exchange earnings were high or increasing rapidly in a number of such countries. Changes in debt management were therefore imperative. Debt-servicing difficulties had many causes, including structural barriers, excessive short-term borrowing accompanied by unexpected shortfalls in export earnings and, in some cases, inefficient use of resources.

33. Several developing countries had entered into bilateral and multilateral negotiations, mostly for rescheduling part of their service payments due on commercial debts, usually at close to commercial rates of interest. Only in three cases had debt relief been granted on concessional terms.

34. The Bank's report concluded that the seriousness of the situation could be reduced by appropriate action by the countries themselves, including efficient utilization of resources and attention to increasing domestic savings and exports. The developed countries could help by lowering barriers to imports from developing countries and also by providing capital on appropriate terms and in suitable volume.

35. The New Zealand representative on the Executive Board of the World Bank had supported the report, in particular its emphasis on the importance for developing countries to maintain basically sound economic policies; the role that developed countries could play in providing stable markets for the exports of developing countries; the role of private investment in the total flow of resources to developing countries; and the need for full collaboration between the Bank and the International Monetary Fund on debt questions.

36. Finally, his delegation wished to co-sponsor the draft resolution.

37. Mr. MAKEEV (Union of Soviet Socialist Republics) said that his delegation's views on the problems of the growing debt of developing countries had already been expressed when it had spoken in favour of measures to end the depredation of the developing countries by imperialist monopolies, trade discrimination and cuts in commodity

prices. UNCTAD data in the review of international trade and development for the current year[1] gave a clear picture of the deterioration in the terms of trade of the developing countries. Export prices had increased 3 per cent for raw materials as against 6 per cent for manufactures. The share of the developing countries in world trade had decreased from 21.3 per cent in the previous decade to 16.9 per cent. Consequently there was a 13 per cent annual increase in indebtedness.

38. His delegation supported the Chilean amendment and agreed with the representative of Argentina that the original text of the draft resolution reflected the problems of the developing countries more clearly. Furthermore, the draft resolution did not take into account the principles of economic co-operation between the socialist and developing countries, nor did it reflect the Soviet viewpoint expressed in the joint statement of 21 September 1970 concerning the second decade of development and social progress.[2] His delegation, therefore, while not against adoption of the draft resolution, could not support it in its revised form and would abstain in the vote.

39. Mr. ABHYANKAR (India) said that, although in agreement with the spirit of the draft resolution, his delegation would have liked it to be stronger. Reference could have been made to effective rates of interest in the rescheduling of loans and to adherence to the norms laid down by the Development Assistance Committee concerning the quality of development assistance. Such an addition might make the text too technical and detailed, but he hoped that agreement would be reached on those vital issues at the third session of UNCTAD.

40. Since the ninth preambular paragraph referred to paragraph (48) of the International Development Strategy, he believed that the concept should be reflected in operative paragraph 1 and suggested that that paragraph should be amended to read "...to give sympathetic consideration to requests from those developing countries, who are undertaking sound policies of debt management and, in view of their situation, are in need of ...", which would reflect the responsibility of the developed and the obligations of the developing countries. His delegation had always stressed the primary responsibility of the developing countries for their development. If countries failed to manage their debts, the international community would hesitate to give them aid, which would jeopardize their economic development and the rescheduling of loans.

41. Mr. SANTA-CRUZ (Chile) said that the Indian amendment must be rejected because it introduced a concept which was much too vague. It was very difficult to say exactly what constituted "sound policies of debt management" and in any case they varied from one country to another. Such policies could also be influenced by political factors. Chile had devoted considerable resources to its attack on social problems, a policy that might be condemned by other countries on the ground that economic investments were more important.

42. Mr. AKRAM (Pakistan) said that, when his delegation had originally introduced the draft resolution, it had emphasized that operative paragraphs 1 and 2 should be viewed in the light of the relevant provisions of the Lima Declaration. With a view to achieving unanimity, the sponsors had not felt it desirable to make specific reference to those provisions. Following the explanations already given by the Chilean representative, he had no need to dwell on the technical, political and economic reasons for rejecting the Indian amendment. The motives for its introduction must be apparent only to the Indian representative himself. It was difficult to understand how such an amendment could emanate from a so-called developing country.

43. Mr. CARANICAS (Greece) said that by putting forward the draft resolution the sponsors had raised a critical and urgent problem faced by the developing countries. In a number of them during the last few years the rising burden of external debt had become alarming. A large proportion of their current earnings of foreign exchange had had to be allocated for debt servicing.

44. One of the main causes of that situation was the recent trend towards harder capital loans and fewer grants to developing countries. A report of IBRD showed that the debt service obligations of 80 developing countries as of 31 December 1969 had increased more than twice as fast as their export earnings in 1970. The Bank's projections indicated that the borrowings of the developing countries would lead to an increase in debt servicing substantially exceeding the rate of increase of their national income. In 1970, although the 16 major "donor" countries had transmitted some $1,000 million to developing countries, almost $800 million had been in relatively hard official export credits and private funds.

45. The rapid increase in the over-all borrowing of eight countries–including Ghana–which had been studied by IBRD was shown by the fact that over the last decade their total indebtedness had nearly tripled. Their extensive recourse to suppliers' credits was clear from the Bank's study. Such credits, as a proportion of total debt, exceeded 30 per cent in five of the countries concerned and in one case the ratio was 85 per cent.

46. In certain countries, the external debts contracted by the monetary authorities accounted for a substantial portion of the total outstanding debt. In addition, long-standing relationships between banking institutions and international financial centres facilitated the accumulation of short-term debts. The pressure arising from the repayment of debt contracted for balance-of-payments financing was another important element of the debt service problem in several countries.

47. The representative of Ethiopia had rightly referred to the question of tied aid. During the latter part of 1970 there had been a move to sever the links between aid and foreign purchases. However, that trend had stopped and in October 1971 the United States had told the other developed countries that, for the duration of the monetary crisis, it would continue to demand that some of the money it gave to developing countries should be tied to purchases of American goods. Other rich countries had decided to act

1 TD/B/369 and Add.1.

2 *Official Records of the General Assembly, Twenty-fifth Session, Annexes,* Agenda item 42, document A/8074.

in similar fashion. Those developments represented a further setback for the developing countries. France and the United States were the countries most closely associated with the practice of tying aid. France gave large sums of money to certain African countries, but the money returned to France in the form of equipment orders to French manufacturers. Some $2,000 million of the $15,500 million of aid disbursed by the "donor" countries in 1970 was linked to domestic purchases.

48. Although primary responsibility for excessive borrowing rested with the debtor countries, foreign suppliers were often competing to extend loans when there were clear signs of a serious deterioration in the financial situation of the debtor countries and even when they were already accumulating arrears in commercial payments. On occasion, decisions to approve export credit insurance and other suppliers' credit arrangements were influenced by competitive pressures to expand exports without sufficient attention being given to balance-of-payments difficulties. With risks minimized because of financing arrangements, suppliers sometimes had little stake in the viability of individual projects. Some projects, which in certain respects might have been over-priced, were promoted by various dubious financial techniques.

49. For those reasons, he proposed that in operative paragraph 1 of the draft resolution the words "to the question of discontinuing the practice of tying aid and" should be inserted after the words "to give sympathetic consideration", and in paragraph 4 the words "contracting external debts and" should be inserted after the words "situation in". Those amendments would make the draft resolution more balanced because they would indicate that, while the developed countries should consider discontinuing the practice of tied aid, at the same time, the developing countries should not accept aid lightheartedly and enter into borrowing commitments that might be politically but not economically feasible.

50. Mr. ABHYANKAR (India) recalled the statement by the Pakistan representative to the effect that the reason for the introduction of the Indian amendment must be apparent only to the Indian representative himself. He would like to remind the representative of Pakistan that he himself had not originated the amendment; he had taken it from paragraph (48) of the International Development Strategy, the text of which had been subscribed to by all countries, including Pakistan. By proposing his amendment to paragraph 4 of the draft resolution, the representative of Greece had confirmed the ideas which underlay the Indian amendment. The representative of Chile had maintained that the Indian amendment gave rise to certain implications but the fact remained that it had been taken from the International Development Strategy which Chile had supported. Although Chile had not accepted the Indian amendment, the Indian delegation was prepared to accept the Chilean amendment.

51. Mr. AKRAM (Pakistan) said that, if the Indian representative consulted the records of the discussions of the International Development Strategy, he would find that the Indian delegation had then spoken out against the inclusion in the Strategy of the words that the Indian delegation now wished to introduce into the draft resolution.

52. Mr. ASANTE (Ghana) said he was glad to welcome New Zealand as a co-sponsor of the draft resolution. He regretted that the Soviet Union intended to abstain in the vote. Since the USSR and the socialist countries were sympathetic creditors of Ghana, his delegation had taken it for granted that they would support the draft resolution.

53. The sponsors could accept the Chilean amendment (A/C.2/L.1209) with certain textual changes and also the United States amendment to insert the words "International Monetary Fund" after the words "International Bank for Reconstruction and Development" in paragraph 2. The sponsors could not accept either the Indian or Greek amendments. He associated himself with the statement made earlier by the representative of Tunisia who had answered all the objections that had been raised. He would point out to the representative of France that the fourth preambular paragraph stated that the unfavourable terms and conditions on which some financial resources had been provided were only one of the important causes of the frequent debt crises in the developing countries.

54. Mr. ABHYANKAR (India) said that he would not press his amendment.

55. Mr. CARANICAS (Greece) appealed to the sponsors to accept his two amendments because they were intended to help the developing countries. The draft resolution was primarily concerned with the increasing burden of debt services and the Greek amendments were designed to remove two of the main causes of that burden. The donor countries themselves had originally agreed that tied aid was unsatisfactory and so there was no reason to fear that their feelings would be hurt by the insertion of the Greek amendment in paragraph 1. The second Greek amendment was designed to help the developing countries to reject enticing offers made by foreign suppliers, which were often accepted merely for political reasons. He requested therefore that, if the sponsors did not accept the amendments, they be put to the vote.

56. Mr. MAKEEV (Union of Soviet Socialist Republics) said he was glad the representative of Ghana had recognized the unselfish and generous aid which the USSR had given to the developing countries, including Ghana. The reasons why the USSR could not support the draft resolution were that it had been weakened by the revised text and that operative paragraph 5 constituted an almost direct intervention in the internal affairs of States.

57. Mr. AYOUB (Tunisia) said he was afraid that the Greek amendments which had been introduced at the last minute would upset the balance of the draft resolution and prejudice the negotiations that had preceded its submission. He therefore appealed to the representative of Greece not to press his amendments.

58. Mr. ALULA (Ethiopia) said that his delegation would have no difficulty in accepting the Greek amendments.

59. Mrs. DERRE (France) appealed to the representative of Greece to withdraw his amendment to paragraph 1. If that amendment was adopted, France would have to request a separate vote on paragraph 1, vote against it and abstain on the text as a whole.

The meeting rose at 1.30 p.m.