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SUMMARY RECORD OF THE 14th MEETING

Chairman: Mr. OUDOVENKO (Ukrainian Soviet Socialist Republic)

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The meeting was called to order at 10 a.m.

AGENDA ITEM 85: EXTERNAL DEBT CRISIS AND DEVELOPMENT: REPORT OF THE SECRETARY-GENERAL (continued) (A/42/157, 354, 357, 159, 410, 411, 477, 523, 562, 604; A/C.2/42/L.9)

1. Monsignor FRANCO (Observer for the Holy See) drew attention to certain moral aspects of the debt problem. Just solutions could be attained only in the context of moral imperatives recognizing the dignity and legitimate aspirations of those most strongly affected by the consequences of the current crisis, namely the impoverished people of developing countries. That was the theme of the document prepared by the Pontifical Commission, "Justitia et Pax" (A/42/157). The debt problem should be the occasion for manifesting the entire world community's solidarity, one of whose characteristics was the growing interdependence of the economies of all countries. That interdependence must find expression in recognition of the equal dignity of all States, instead of domination, national egoisms, inequality and injustice. Mutual trust was an essential principle which must be nurtured by both creditor and debtor nations.

2. The urgent nature of the crisis in some countries, particularly in Latin America and Africa, called for immediate debt-relief measures. Because of their mandate and expertise, some international organizations, such as IMF, bore special responsibilities for helping States to ameliorate their immediate monetary difficulties. Creditors and debtors must recognize their co-responsibility in the search for the inherent causes of those problems. In particular, the banks and institutions of industrialized countries must evaluate the repercussions of their own policies on the international community. Similarly, the Governments of those countries must change their economic practices if they placed too great a burden on other countries, especially the least developed.

3. He urged all the parties concerned to share the burden of the external debt of developing countries in order to bring the blessings of brotherhood, solidarity, peace and development to all people. For their part, the leaders of developing countries must have the civic and moral courage to brief their peoples on the burdens proper to each individual and each social category. They must establish suitable structures to avoid abuses in the use of the resources made available through various international financial arrangements. The industrialized countries and international financial organizations, for their part, must act in concert to formulate a broad plan of co-operation and assistance for the good of developing countries.

4. Mr. BRAISH (Afghanistan) said that the debt problem was not merely economic or financial but had become a pressing political problem. Taken together with the decline in commodity prices, the increase in net transfers from the developing to the developed countries and the rise in the prices of manufactured goods had widened the gap between the two. The development of some developing countries had stagnated and some of the least developed had experienced a negative trend.

(Mr. Braish, Afghanistan)

5. The outstanding external debt of the devel ng countries and annual world expenditure on armaments were approximately the same. Disarmament measures and reduced military expenditure would release substantial additional resource6 and make it possible to repay the debt in a short period. He recalled that the eighth Conference of Heads of State or Government of Non-Aligned Countries, at Harare, had proposed specific measures for alleviating the serious consequences of the debt crisis, and they should be fully applied by the international community. It was regrettable that the capitalist developed countries lacked the political will to take urgent measures with a view to solving effectively and equitably the problem of indebtedness. Accordingly, the convening of an international conference on money and finance for development was of paramount importance.

6. Mr. LE HUU HUNG (Viet Nam) said that the international community should evaluate the current dobt strategy in order to find a comprehensive solution to the debt problem of developing countries. The current strategy was one-sided, dictated as it was by the developed market-economy countries, commercial banks, and the monetary and financial institutions whose decision-making was under the control of the same group of countries. That was why it had failed to prevent the worsening of the debt crisis. In the first stage, the banks had simply refused to lend to the major debtors; then the Baker plan had been inaugurated, but without success since it dealt with the symptoms rather than the root of the crisis. Thus, the austerity programmes implemented in accordance with the plan had not improved the developing countries' economic situation and recovery in the developed market-economy countries had lost momentum, with unemployment remaining high in most of them, so that many developing countries which had followed the Baker plan began to feel the economic and social costs and ended by taking steps of their own, for example limiting their debt service to a bearable percentage of export earnings, suspending interest payments, or simply dropping the IMF austerity programme in order to win some breathing space for their peoples. In the last stage, it had finally been recognized that indebtedness was a solvency rather than a liquidity problem, but that was a recent development and it would be premature to analyse the effects of the *menu" options being offered to developing countries.

7. So far, however, whatever the stages of the debt etrategy, they could only work to the advantage of the groups referred to, and the developing countries remained under severe attain, not only because of an unfavourable external environment but also because of political pressure on them to choose particular oaths of economic and social development. The fundamental ahortcoming of the current strategy was that it had been worked out on the assumption that the worsening of the debt situation was attributable only to the economic minmanagement of the developing countries. On the basis of that one-sided assumption, creditors had considered that any additional external financing should be made conditional on far-reaching reforms under adjustment programmes imposed by IMF. The report of the Secretary-General of UNCTAD to the seventh session of the Conference in fact noted that lending policy seemed so far ta have been for the purpose of encouraging policy changes rather than transferring resource'91 to the developing countries. Moreover, in their assessment of the current debt strategy, the Foreign Ministers Of the Group of 77 had recently emphasised in New York that the approach of the

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(Mr. La Huu Hunq, Viet Nam)

developed creditor countries continued to be inequitable, asymmetrical, partial and not commensurate with the scale and nature of the ct Isis.

8. A lastinq solution to the debt problem required addreasinq the underlyinq structural problem of the exiatinq international economic system. That meant conveninq an international conference on development financinq. Hence there was an immediate need for a three-wry dialoque between the Governments of the debtor countries, developed creditor countries and international financial and bankinq institutions in order to take measures to: (a) reduce aubatantially the debt overhang and the service on the debt by teducinq interest rates and convertinq debts into grants; (b) recycle the huqe surpluses present in the developed countries by increaainq the flow of resources to developinq countries on a multi-annual and predictable basis and by haltinq and reversinq the net transfer of resources to developed countries; (c) remove all kinds of trade barriers in developed countries and offerinq remunerative prices for developed countries' exports; (d) link the payment of external debt and factors of debt-servicinq capacity, such as export earninqs, terms of trade, import requirements and GDP qrowth. Finally, he expressed the hope that, takinq into account the concerns and national interests of developed countries, which were reflected in the report of the Secretary-General (A/42/523) and in the Final Act ot the seventh session of the United Nations Conference on Trade and Development, the Second Committee would adopt by consensus a new resolution on that thorny item.

9. U WIN MRA (Burma) said that the debt crisis, which had at first seemed to be temporary, was not only a problem of liquidity but also a lonq-term problem that could have a serious impact on the entice international community. After several years of difficult adjustment, many developinq countries were showinq siqns of fatiquu. The main cause of the problem was the combination of a decline in commodity prices and an increase in the price of manufactured qooda. The deterioration in the terms of trade made it necessary to resort to borrowinq and explained the immense volume of international debt.

10. There was qrowinq recoqnition that responsibility for the situation was shared by debtors and creditors and that both should pursue a qrowth-oriented strateqy supported by a level of net transfers that would enable the developinq countries to qenerate the necessary investment. Mutually supportive measures had been collectively presented by developinq countries with the aim of findinq a durable solution to the debt crisis, which would include substantially reducinq the debt overhanq and service on the debt, increasinq the flow of resources, includinq ODA, increasinq access for the exports of developinq countries to the markets of developed countries at just and remunerative prices, and the removal of protectionist barriers. The concept of shared responsibility should, on the basis of General Assembly resolution 41/202, make it possible to find an equitable solution. To retch that qoal continuinq dialoque between debtors and creditors was necessary.

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11. Mr. ANDRADE DIAZ-DURAN (Guatemala), speaking also as Chairman of the Group of 77, stressed the great importance which that group attached to the problem of the debt and regretted that none of the solutions presented so far had been really effective. Developed and developing countries admitted that the problem affected everyone. It was therefore absolutely necessary to find a lasting, equitable, balanced and growth-oriented solution and to adopt, as soon as possible, a new political strategy that must include, as a minimum, the points reflected in General Assembly resolution 41/202 as well as certain measures indicated in the Final Act of the seventh session of UNCTAD.

12. At their eleventh annual meeting, the Ministers for Foreign Affairs of the Group of 77 had noted that debtor countries had intended to honour their commitments, but had reaffirmed that in the current international situation they could not manage their external debt without the sustained economic growth that would enable them to pursue their development. The debt had a negative impact on growth because it reduced the capacity to invest and to import, not to mention its impact on economic and social development. For the least developed countries, whose structures were particularly vulnerable, the problem was tragic. All the indicators of debt pointed to a worsening situation. That was particularly the case for the 15 most indebted countries as well as the countries of Africa south of the Sahara. The prospects were not encouraging. The debt/export ratio (which had been 183 per cent in 1986) was expected to decline, but it would certainly still be higher in 1991 than it had been in 1980.

13. The current situation was closely linked to the depressed commodities market, and the payment capacity of the developing countries depended to a large extent on improving commodity prices, the stability of those markets and an improvement in the terms of trade. High real interest rates aggravated the problem even further since much of the debt was at floating interest rates. All those factors accounted for the net transfer of the resources from debtor to creditor countries since 1984.

14. The developing countries had, often at the behest of IMF, agreed to difficult recovery measures whose social, political and economic costs had been particularly high, particularly for the countries of the Sahel, already hard hit by drought and desertification. The policies formulated by the international financial institutions and the attitudes of the commercial banks had not, however, helped to solve the debt crisis. The strategy pursued had failed in part because the assumptions on which it had been based had not been borne out. There had not been increased growth of world output and trade, and enough new resources had not been found to benefit the developing countries. Moreover, most of the macro-economic variables on which reduction of the debt depended were beyond the control of the developing debtor countries, and were determined largely by the economic policies of the developed market-economy countries.

15. Any solution should include specifically the points set forth in the Declaration of the Ministers of the Group of 77 (document A/C.2/604): substantial reduction of the total amount of the debt and interest, conversion of loans into grants, rescheduling, discounts in secondary markets, increased flows of public and private capital, including ODA, on a multi-annual and predictable basis, and of

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(Mr. Andrade Diaz-Duran, Guatemala)

resources from international financial institutions; reversal of the net transfer of resources to developed countries; quaranteed access for the developinq countries' exports to international markets by the removal of the protectionist barriers in tha developed countries, and establishment of just and remunerative prices for exports; establishment of a direct and transparent link between external debt and export earninqa and between the payment of the external debt and factors of debt-aervincinq capacity, such as terms of trade, import requirements and the qrowth of the gross domestic product.

16. He reaffirmed the wnfidence that the Group of 77 had in the United Nations system, which was an appropriate forum for examininq and aolvinq economic problems such as those of the debt crisis. Dialogue and neqotiation were absolutely necessary because the developinq world and the induatrialiaed world had common interests and objectives. Certain measures proposed at the meetinq of the International Monetary Fund held at Seoul had proved to ba dated or inoperative, as their proponents thevaelvea had recognized. kany developinq wunteiea had already made important aacrificea, and it was now up tc the induatrialiaed countries to follow suit and share the debt burden. In conclusion, he recalled that the Group of 77 had adopted a cleat and well-defined position on the debt. That Position was reflected in the Havana Declaration and had been reaffirmed at the eleventh meetinq of the Ministers for Foreiqn Affairs of the Group of 77.

17. MR. SEVILLA (Nicaraqua) said that the developinq countries were continuing to suffer from the effects of the world economic criaia, which their people were findinq increaainqly difficult to tolerate. Unless the international community tackled the fundamental causes of that criaia, it could have unforeseen conaequencea. It had frequently been said that economic qrowth in the induatrialiaed countries would automatically provide the impetus for qrowth in the devcloping countries, but that had not proved to be the case. According to the World Economic Survey 1987, the slow qrowth rate predicted for the developed countries would not be sufficient to reactivate world trade, reduce the debt burden, bring down unemployment or have any noticeably beneficial effect on trade imbalances. All the effort the developing wuntriea had been able to devote to adjustment had failed to produce the expected results. Those countries had had to make drastic impart reductions at the expense of domestic qrowth. Even if their exports hnd qrown, that in itself had not of fast the losses caused by the fall in commodity prices, particularly since those countries had also had to cope with increased protectionist measures.

18. In the current situation it was vital to institute a world-wide dialogue and w-ordination effort. In his report on the international debt situation, the Secretary-General noted the failure of the current strategy, emphaaiainq that certain basic conditions had not been established. The necessary expansion of world output and trade had not occurred and new flows of finance had been insufficient. There had, in fact, been substantial net outflows of capital from the developinq wuntr lea. Between 1982 and 1986, such flows had accounted for $US 132 billion in Latin America and the Caribbean.

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(Mr. Sevilla, Nicaraqua)

19. At the recent Annual Meetinq of IMF and the World Bank, the United States Trearury Becrutary, Mr. Baker, had reaffirmed the validity of the plan he had presented in Seoul. Inflexible instruments of that type should not, however, divert attention from the important role played by external factors which could not be controlled. Mr. Baker himself had recoqnized the need to create a reserve fund within IMF to deal with the unforeseeable events that oould occur in connection with the debt crisis. He had not, however, indicated who would be responsible for financinq such a fund. The Second Committee ehould, therefore, analyse the various proposals put forward at the Annual Meetinq of IMP and the World Rank. In particular, debt-equity swaps, conversion of debts into exit bonds and interest capitalization had been recommended. Nicaraqua did not consider those measure8 to offer any durable solution to the debt problem. On the contrary, experience had shown that such measures tended to increase the financial dependence of the developing countries and, therefore, their indebtedness. Some countriee had put forward more realistic options, which could serve as the basis for international neqotiations. All of thoae options involved the followinqr (a) a diatinotion between new and old debte; (b) a reduction in the nominal value of the debt to brinq it to market levels; (c) a reduction in debt service and principal; (d) easinq of the conditions of access to the IMF compensatory financing facility; (e) debt-cancellation on a bilateral basis; (f) conversion of debt into exit bonds.

20. The indebted countries had rallied in eupport of concerted action at international level, The Group of 77 had made a significant contribution to the work of the seventh session of UNCTAD. The Second Committee should act in the lame spirit. His country welcomed the positive measures taken unilaterally by some of the developed countries, in particular, those that had announced that they were prepared to recycle surplus resources, had cancelled some official debte or had decided to take a more active part in the activities of the multilateral financial institutions. Nicaraqua had always stressed the need for concerted action on the part of the developinq countries. Although the specific interests of the smaller debtor countries had not always been taken into account, it was vital to identify common elements and to seek greater cohesion. There were already in existence numerous inetrumente and mechanism8 that could be used to achieve that objective. It was unnecessary, therefore, to create now ones.

21. Mr. KAGAMI (Japan) said that the debts of the developinq countries represented the most serious problem facinq the world economy. The fiqurea qiven in the report of the Secretary-General (A/42/523) clearly illustrated the qravity of the aituntion. In the liqht of its own experience, Japan was convinced that implementation of adequate structural adjustment policies by the debtor countriee, and provision of sufficient financial back-up were two vital conditions if the debt problem were to be solved and development promoted. It was vitally important for the middle-income countriee to take account of medium- and lonq-term prospects when adoptinq such policies. Vigorous efforts should be made to find ways and means of encouraqinq private capital flows to those countries without creating new debts that could be achieved, in particular, throuqh direct foceiqn investment, which would promote employment, etrenqthen the private sector and encourage technoloqy transfer. The international financial inetitutione, includinq the World Bank and

(Mr. Kaqami, Japan)

IMF, would have ta play an even more active, catalytic role in that field. It was also very important for the Multilateral Investment Guarantee Aqency to become operational in the near future. With the same objective in view, the idea of debt-equity swaps should also be given careful consideration.

22. With reqard to debt-relief measures, the Japanese Government had set up a programme to recycle $20 billion for the benefit of the middle- and low-income developinq countr lea. The aim was to help them to revitalize their economic development and to promote structural adjustment, thereby enablinq them to overcome their debt problems.

23. In the case of the low-income countries, particularly thoee of sub-Saharan Africa, debt relief would call for different etrateqies. Thoee countr lee must, of necessity, be qranted official assistance under conditions which would enable them to develop their economies without aqqravatinq their debt problems. The developed countr ies and international financial institutions must contribute eubetantially to such efforts. In that connection, Japan welcomed the recent aqreement on the eiqhth replenishment of IDA, which amounted to $12.4 billion. To assist the structural adjustment efforts of the sub-Saharan African countries, Japan had made provision for special joint financinq totallinq approximately $300 million in the form of co-financinq with IDA. Furthermore, it had decided recently to provide those countries with additional assistance amountinq to approximately $500 million, spread over three years. That assistance, which was not tied to any specific projects, should enable them to finance the importation of qoode urqently needed to carry out structural adjustments and, therefore, to reduce their debts.

24. There must be broad w-operation between the creditor countries, debtor countries, international financial inetitutione and commercial banks. A close examination must be made of the nature and composition of the debts of each country, as well as of the level of development and probable social and political impact of debt. The recently devised "menu" approach deserved further consideration in that context. It was vital, in any case, to approach the issue on a caee-by-case basis. Japan's Minister for Foreiqn Affairs had recently proposed the creation of an independent, hiqh-level "qroup of wise men" to examine ways and means of encouraqinq a flow of financial resources to developinq countries. Japan would welcome any suqqestions as to how that proposal could be put into practice.

25. Mr. MARTINEZ (Paraguay) pointed out that the worseninq of the external debt crisis and the deterioration in the world economic situation that were hittinq the developinq countr ies, especially the least developed amonq them, once more underlined the need to establish a new international economic order.

26. Between 1979 and 1986, Latin America had paid out 6132 billion in debt servicinq, whilst the fliqht of capital from the reqion had totalled about 8115 billion. Export income had fallen by 14.8 per cent between 1985 and 1985, and world economic qrowth had fallen from 3 per cent, to 2.8 per cent in the same Period.

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(Mr. Martinez, Paraguay)

27. Developinq countries were witneesinq a haemorrhaqe of their financial resources that was retardinq the convalescence of their anaemic economies. Such piecemeal solutions as budqet cuts, import reductions and other adjustment measures of a paseinq nature were caueinq a drop in peoples' standard of livinq and arousinq discontent that was threateninq the social, economic and political order and pceventinq the consolidation of democratic processes.

28. Since the austerity policies advocated initially had only caused the crisis to deepen, it had become apparent that only measures to promote the qrowth of developinq countries would enable realistic, just and equitable solutions to be found. It was essential that both debtors and creditors should assume their share of responsibility in order to achieve that end.

29. Mr. PASHKEVICH (Byelorussian Soviet Socialist Republic) said that to find a solution to the debt problem it was necessary to expose the factors which had led to the crisis and were makinq it worse. The problem was not solely financial. The substantial external indebtedness of the developinq countries had become an important instrument of exploitation for the private sector of countries that benefited from their resources. In addition, the so-called "adjustment" proqrammes imposed by the International Monetary Fund and the World bank had catastrophic repercussions on the social and economic situation of debtor countries. In fact, one had the impression that certain circles were tryinq to exploit the vicious circle of indebtedness in their relations with the third world.

30. The problem beinq primarily political, it was appropriate to eeek political solutions. Such efforts could be fruitful if countries acted toqether to promote peace, disarmament and international economic security. The haltinq of the arms race would contribute qreatly to settlinq the debt problem. Part of the resources thua saved could be used to provide fresh financial asaietance on concessionary terms and to refinance loans aqreed previously. The need to have recourse to loans on capitallet markets was explained by the position of developinq countries in the world economy. They were banished to the outskirts and left at the mercy of countries that practised unequal exchanges and exported their inflation. Although the developinq countries had increased their exports of raw materials by 300 to 400 per cent over the past 30 years, they had derived no profit from so doinq because foreiqn monopolies controlled the processing, etoraqe and transport of those products. Moreover, commodity prices had fallen to their lowest levels for 50 years.

31. The increase in interest rates had made credit dearer. Currently, there were even net flows of capital out of developinq countries. In its repot t on its twenty-third session (E/1987/231, the Committee for Development Planninq had denounced that in justice . The phenomenon of the fliqht of capital muet be halted immediately and then reversed. In view of their influence on the problem of indebtedness, the studies undertaken by the United Nations Secretariat to determine the causes of the reverse transfer of resources and to devise practical meaeuree assumed particular importance.

(Mr. Pashkevich, Byelorussian SSR)

32. Certain measures envisaged or taken to solve the problem of indebtedness provided for debts to be traded against foreign property rights over the natural resources and production capacities of developing countries. The trend was very disturbing because it was helping to strengthen the foreign grip on developing countries. That was why the Byelorussian SSR supported those developing countries that favoured a political solution based on shared responsibilities between debtors and creditors, strict equality of rights and adherence to the aim of economic growth.

33. Given the seriousness of the problems of indebtedness, a programme should be worked out for immediate action. The General Secretary of the Central Committee of the Communist Party of the Soviet Union, M. S. Gorbachev, had listed the measures that such a programme might include; reduction of the rates of interest on bank credit; the limitation of debt servicing to a given percentage of annual export receipts; the possibility of debtor countries repaying certain debts by means of exports; the elimination of protectionist barriers against their exports; and abandonment of the practice of incorporating interest when rescheduling debts. Such a strategy could be drawn up at an international conference devoted to the problem of external debt. In addition, it was desirable that a conference on monetary and financial questions be convened under the aegis of the United Nations or some other representative organization to consider the restructuring of the international monetary and financial system.

34. Recent international discussions had brought out the need for a global approach to the problem of indebtedness. In that connection, the Warsaw Treaty signatory States had underlined the need for energetic measures to prevent a further deterioration in the position of developing countries, to bring about fundamental changes in political thinking and international practice, to establish an equitable international division of labour and to allow the exercise of inalienable sovereignty over national resources (A/42/354-E/1987/110).

35. Mr. ORAMAS OLIVA (Cuba) said that the external-debt problem had acquired unprecedented dimensions because of the unfairness of international economic relations, which were characterized by a resurgence of protectionism, inequality in the terms of trade, monetary and financial disorder and the adoption by many developed countries of unilateral and discriminatory policies. In that situation, it was comforting to note that most members of the Committee already recognized the seriousness of the problem and the need urgently to find a concerted political solution.

36. To date, the policies of the main international financial institutions had only defended the interests of transnational banks by trying, above all, to ensure the servicing of debt and by introducing new methods whose aim was to emphasise the dependence of developing countries and control their economic activity. The so-called "capitalization of debt" was an example of such unscrupulous manoeuvres. Being perfectly aware that the third world could not clear its external debt, the main creditors had developed such fiendish mechanisms in order to turn that incontrovertible reality to their advantage.

(Mr. Oramae Oliva, Cuba)

37. That was why the only legitimate and lasting solution to the problem of the developing countries' external debt lay in its total annulment, the establishment of a new international economic order and the implementation of effective disarmament measures in order to free resources for development. As the phenomenon worsened and the so-called "solutions" continued to prove ineffective, the international community would have no choice but to adopt such proposals if it had any concern whatsoever for world stability and really wished to maintain international peace and security.

38. Mr. ZAWELS (Argentina) said that perhaps the sole merit of the international economic crisis was to have highlighted the interdependency of the world economy. Unfortunately, that phenomenon had not been taken fully into account in the case of the debt crisis, which was due primarily to such external factors as the increase in real interest rates and the steady decline in the prices of basic commodities. Moreover, in order to obtain financing from abroad, the debtor countries had been forced to carry out internal adjustments. That had resulted in a slowing of local economic activity, which in turn had had a recessionary effect on the international economy.

39. Any strategy to remedy that problem must be based on the following three principles: granting of financing with a view to helping the developing countries to overcome the pernicious effects which external factors had had upon their debt; internal economic adjustment on the part of the debtor countries; provision of resources during a transition period until the adjustments began to bear fruit.

40. The implementation of such a strategy should create conditions in which the external debt ceased to be an obstacle to growth. To that end, it was necessary to provide predictable financial flows, guarantee imports at a level sufficient for sustaining economic activity and ensure that, domestically, the transfer of resources from the private to the public sector did not paralyse private initiative, while maintaining consumption at a reasonable level. Lastly, the level of debt must be reduced in order to allay the uncertainty troubling domestic and foreign investment.

41. That strategy must also provide for three types of mechanisms: firstly, a financing of the balance of payments and of growth; secondly, a reduction of debt servicing; and thirdly, a reduction of the principal. Only such a strategy would have a dynamic effect on world economic activity and make possible a reduction in the current asymmetry of the adjustments it would give concrete form to the notion of joint responsibility for creditors and debtors and would lead to real international co-operation based on mutual interest.

42. Mr. DOLJINTSEREN (Mongolia) said that the debt level not only was an important destabilising factor for the economies of developing countries but also had serious consequences for the world economy. The grave debt crisis was due above all to inequality and exploitation in international economic relations, the latter being characterised by high interest rates, a transfer of resources from the developing to the capitalist countries, a sharp drop in commodity prices, protectionism and the like. The responsibility of transnational creditor banks, which sought to

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(Mr . Doljintseren, Mongolia)

derive ever-hiqher profits to the detriment ot the developinq countries, waa undeniable and must be recoqnized. The developinq countries, which had accumulated colossal debts, currently wed a substantial part of their export receipts solely to reimburse the interest or. their debt.

43. The mountinq level of debt was also due to the arms race, which of late had taken on unprecedented proportions. Hence, one of the prerequisites for solvinq the debt problem was the implementation of disarmament measures and the transfer for development of the resources thus released.

44. It emerqed clearly from the Secretary-General's report that all the efforts by the developinq countr ies, particularly those moat heavily in debt, to attenuate the qravity of the problem had been in vain and were wminq up aqainst numerous obs taclea .

45. His deleqation. too, advocated the implementation within the framework of the United Nations of a comprehensive proqramme to settle the foreiqn-debt crisis in the interest of all States. That proqramme should include a reetructurinq of international monetary and financial relations on the basis of eqalitarian and democratic principles, a halt to the capital flows f rom the developinq world to the market-economy countr ies, a lwerinq of interest rates, an increase in commodity prices and the elimination of discriminatory trade measures. It was to be hoped that the General Assembly would adopt a constructive resolution to promote such a proqramme.

46. Mr. OULD EL-GHAOUTH (Maur itania) , referring to the servicinq of Mauritania's debt, said that it was his Government's firm intention to honour the entirety of its obligations, which amounted to approximately twice that country's GDP. Hwever, qiven the size of the country's debt (in the early 1990s, the payments for debt servicinq would absorb virtually the entire qcoso volume of external assistance that Mauritania miqht hope to receive from the international community), its meaqre export receipts, its limited expansion opportunities and its enormous drouqht and deaertification problems, that objective would be very difficult to achieve. The national debt was beyond Mauritania's ability to repay, even aseuminq that the structural adjustment policy provided for in the national recovery proqramne was successful and despite the favourable terms that Mauritania had had the qood fortune to receive, in particular from the Paris Club.

47. Althouqh it was wmmitted to carryinq out the requisite economic and institutional reforms despite their social and political costs, his Government hoped to reach a mutually acceptable aqreement on a strategy that would enable it to bear the excessive and paralysinq burden of the debt and to riqht its economy. That presupposed a re-evaluation of the concept of qrowth-oriented adjustment proqrammee. It was necessary to ensure a more equitable sharinq of the adjustment burden and to cancel or relax the conditions imposed on the least-developed countr lee.

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(Mr. Ould El-Ghaouth, Mauritania)

48. His delegation continued to place great faith in the United Nations Programme of Action for African Economic Recovery and Development 1986-1990, and it deeply hoped that an international conference on the African debt would be convened.

49. In conclusion, his delegation expressed the wish that the representatives of Mauritania's creditor countries would urge their Governments to cancel the Mauritanian debt altogether. Barring that, it counted on a more favourable rescheduling then had occurred in 1987.

50. Mr. PAYTON (New Zealand) said that it was crucial to the work of the Committee for all its members to commit themselves to dealing with the increasingly critical issue of the external debt and its repercussions on the world economy in the same constructive spirit as in 1986, when resolution 41/202 had been adopted by consensus. There were signs that the international community was conscious of the complexity of the problem and was resolved to take the necessary steps to eliminate that constraint on the world economy. The Final Act of the seventh session of the United Nations Conference on Trade and Development included clear guidelines on the course of action which all parties should follow in dealing with the issue of external indebtedness. The adoption of the Final Act represented a positive step forward, as did the commitments entered into by participants in the recent meetings of the Interim and Development Committees of the World Bank and the International Monetary Fund. While those commitments and guidelines would not alone remove the economic and political obstacles that continued to stand in the way of an equitable solution to the problem, the signs of willingness on the part of both debtors and creditors to search for new modalities were clearly encouraging. For its part, New Zealand would give its full support to that effort.

51. The documentation before the Second Committee on the item, and in Particular the report of the Secretary-General, supplemented most usefully by the introductory remarks of the Assistant Secretary-General for Development Research and Policy Analysis, showed the complex interrelated factors involved. One factor which New Zealand had always considered important was the imperative of recovery led by export growth. Although the increase of debt on a global basis had slowed down, the debt burden of the developing countries had continued to grow because of steady declines in their export earnings, which reflected the depressed prices for commodities. Although not all developing countries were in the same situation, current trends did not augur well for an improvement in the debt burden of most developing countries in the medium term. An improved international trading environment for exports from developing countries was one of the few chances many indebted countries had to extricate themselves from their current difficulties. Unfortunately, the surge of protectionism was another cloud on their horizon. It was his country's firm view that liberalization of world trade was the best guarantee of the long-term improvement in the developing countries' economic situation.

52. The current round of multilateral trade negotiations being conducted within GATT provided an excellent opportunity for positive movement in that direction and liberalization of international trade in the areas of agricultural commodities and

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(Mr. Payton, New Zealand)

tropical products was a key component. As the world Bank had stated in a 1986 report, if agricultural protectionist barriers were totally dismantled, the benefit to developinq countries would amount to 428 billion a year. New Zealand therefore recommended those seriously seekinq to rectify the basic causes of chronic indebtedness to qive priority to the mutual diamantlinq of market barriers and the proqreesive reorientation of world economc activity in accordance with the principle of international wmparative advantaqe. The developinq wuntries preferred dealinq with their debt problem through economic qrwth, rather than puttinq their trust in reecheduling, debt-equity swaps and other innovative arranqemente currently beinq put in place, which were none the less useful. under the present circumstances.

53. Mr. RAO (India) said that the debt crisis, which had not improved over the past five years and the medium-term prospects for which were hardly encouraqinq, was universally unsustainable. The root causes of the crisis were to be found in the international economic situation, which was untavourable to the developinq countr lest deterioratrnq terms of trade, qrowinq protectionism, volatile exchanqe rates, risinq real interest rates and staqnation of official development aasietance.

54. The strategies implemented hitherto, not bearinq any relation to the qravity of the crisis, were inadequate for producinq a lastinq solution to the problem, as they had not been conceived in a perspective of development and growth. They were characterized, on the one hand, by the unequal distribution of the burden between debtor countries and creditor countries and, on the other, by the staqnation of official aid and the &crease in private lending. Furthermore, the cost of adjustment proqrammes undertaken by the developinq wuntriea was unacceptable, especially from the human anqle.

55. There was now an opportunity to build further on the consensus achieved in General Assembly resolution 41/202 and the Final Act of the seventh session of UNCTAD. It had been rewqnized that only a development-oriented approach based on political dialoque and ahared responsibility could enable a fair and lastinq solution to be found to the crisis. A more stable and predictable economic environment was also needed, external financinq from official and private sources needed to be increased and investment requirements and debt-eervicinq of the debtor deveiopinq countries should also be taken into account.

56. To carry the process of dialoque further, his deleqation urged serious consideration of the follwinq ideas: qreater access to the markets of developed countries for the exports of developing countries; hiqher prices for commodity exports from developinq countries and improved terms of trade; equitable sharinq of the benefite and costs of adjustment between debtors and creditors; lower real interest rates and more stable exchanqe rates; conversion of concessional debt of low-income countries into qrante; revcreal of net outflow of resources from developinq countries; new flows of financial resources from multilateral financial institutions; increase in the qeneral capital of the World bank; an early triplinq of the Structural Adjustment Facility of the International Monetary Fund;

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(Mr. Rao, India)

substantial transfers from surplus developed countries to developing countries; and new measures to establish a stable, effective and equitable monetary system.

57. As the exceptional acuteness of the debt crisis was due to the deterioration of the world economic situation and the inconsistent and unco-ordinated policies of the major industrialized countries, concerted action was vital.

58. Mr. KENDECK MANDENG (Cameroon) said it was no exaggeration to state that the external debt had reached such proportions as to be the chief obstacle to development, particularly in the African countries. For them, the most worrying factor besides the size of the debt was the burden of its servicing, which today absorbed nearly 38 per cent of their export earnings.

59. A number of factors had combined to produce the African external debt crisis: a sharp decline in commodity prices, resulting from protectionism and the manipulation of prices by transnational enterprises, leading to payments imbalances; a deterioration of the terms of trade; reduction of private resource flows to Africa, and stagnation of official development assistance.

60. The far-reaching structural economic reforms implemented by almost all African countries had had their effects nullified by the unfavourable economic situation. Debts had only got worse, thus prompting the Heads of State and Government of the countries of the OAU to convene an extraordinary meeting on African external debt. scheduled for the end of 1987.

61. While the commendable measures adopted in behalf of certain developing countries were a positive sign - and in particular the measures announced at the Venice Summit, Canada's exemplary initiative in writing off the official debts of certain African countries in their entirety and the encouraging outcome of the seventh session of UNCTAD - it still had to be admitted that the measures for alleviating the debt crisis, adopted thus far by the creditor countries were inadequate and ineffective. Also, rescheduling the official debt within the Paris Club had not resulted in any reduction of the debt burden, and obligations contracted with the IMF continued to weigh heavily on African countries.

62. If the international community really wished to get at the root of the problem, it must recognize the need to adopt comprehensive solutions, and new and co-ordinated approaches in particular, based on the notion of shared responsibility and a strategy oriented towards growth and development. New measures must also be taken to help low-income countries: the debt and interest obligations assumed in connection with bilateral official development assistance by low-income countries pursuing structural adjustment programmes should be converted into grants, interest rates on existing debts should be lowered, repayment and grace periods should be extended and, finally, aid flows for recovery and development should be increased. In that connection, his delegation welcomed the recent establishment of a high-level advisory group to study financial. flows to Africa.

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(Mr. Kendeck Mandeng, Cameroon)

63. The international community must ensure that concessional aid from multilateral institutions was increased significantly and look into the possibility Of issuing nw special drawing rights.

64. Mr. MUTOMBO THITAMBWE (Zaire) said thrt the numerous meetings devoted to third-world debt showed that the problem was constantly growing worse and that the whole world saw a need for swift action, before it was too late. As the capital-importing developing countries' debt ovechang was twice their export earnings, the debt burden must be eased in order to stimulate growth in the world economy and international trade. The measures just taken at the seventh session of UNCTAD should ancourage States to continue their efforts to stabilize commodity prices by setting up the machinery that would make the Common Fund for Commodities operational.

65. The International Monetary Fund and the World Bank now acknowledged debtor countries' willingness to become solvent; nevertheless, the Problems of those countries should be taken more fully into account and creditor countries should be convinced that interest rates must be reduced in order to revitalize the economies Of third world countries.

66. Zaire, which had undertaken a sweeping structural adjustment programme, commended the efforts of certain developed countries, including Canada, France, the Nordic countries and the United Kingdom, which had cancelled certain developing countries' debts.

67. Since an inexorable worsening of the debt crisis was not in the interest of any State, debt-related problems must be considered within a multilateral framework. In that connection, his deleqation favoured the holding, under United Nations auspices, of an international conference on African debt.

68. Mr. MENDEZ (Philippines) said that, in order to deal with the debt problems of many developing countries effectively, States Members of the United Nations must keep from falling prey to certain delusions. The first delusion was the view that the debt crisis was almost under control. At best, debt rescheduling had merely spread repayments out over a number of years without making a substantial reduction in either principal OK interest. New measures, such as debt-equity swaps, were having only marginal impact and often created more problems than they solved.

69. Secondly, new loans did not constitute fresh resources, since they were used to Kepay creditors. That was because indebtedness and interest rates had increased sharply and because commercial banks were much more reluctant to issue loans. An UNCTAD secretariat study estimated that if net bank lending continued to grow at 3 per cent and interest rates stayed at 10 per Cent, the developing countries' indebtedness to banks would have increased I $70 billion by 1990, even though those countries would have made a net transfer to the banks of $170 billion. FOK example, the Philippines expected to receive $2.7 billion from outside sources in 986-1987 but would have to pay $5.7 billion to official and private creditors.

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(Mr. Mendez, Philippines)

70. Finally, it was absurd to claim that providing a meaningful measure Of debt relief in the form of a reduction of principal and interest would cripple the international financial system. That delusion was the most pernicious of all because the hypothetical risk to banks could not be compared to the risk of economic collapse to some debtor countries. A study by the United States Congress indicated that a reduction in interest and principal would not drive banks to the brink of bankruptcy. In that connection, it was quite possible that Citicorp had blazed a trail two months earlier when it had set up a reserve of $3 billion as protection against loan losses.

71. The international community must take steps to augment the resources of the World Bank and IMF, increase exchange rate stability, achieve better symmetry in the adjustment process between debtor and creditor countries, liberalize IMF conditionality, strengthen the IMF surveillance mechanism and co-ordinate policies of the major industrialized countries more closely and systematically. It was encouraging to note that those issues had been dealt with at recent international meetings and that the General Assembly itself had adopted a resolution along those lines (41/202) at its preceding session. Concerted action should be taken, particularly in the context of an international conference on money and finance! only with a bold strategy, however, could the developing countries' crushing debt-service burden be reduced. Such a strategy was not without precedent. when President Suharto had taken office in Indonesia in the late 1960s, the country had been faced with an inflation rate of over 1,000 per cent and had been on the verge of bankruptcy. A three-year grace period had been granted for all repayments of principal and interest. Later, a standing committee of creditor Governments had allowed Indonesia to repay the principal in 30 equal annual instalments and bad fixed interest at 3 per cent below market rates. That strategy had been enormously successful.

72. The proposal of United States Senator Bill Bradley was also in line with that strategy. It called for the cancellation of 3 per cent of some least developed countries' debt, a 3-per-cent reduction in interest rates on all outstanding debt and the granting of new loans to stimulate debtor countries' economies. That strategy was not the result of naïve generosity, but was based on perfectly realistic considerations and on the benefits that would accrue to both creditor and debtor countries. To cite but one example, the aforementioned study by the United States Congress indicated that the debt of Latin American countries had cost American farmers five times more in export earnings than had the grain embargo against the Soviet Union.

73. There was no reason, then, to fear taking bold steps to overcome the debt crisis, and he welcomed the initiative taken by Japan in adopting a programme to recycle its surpluses to certain countries.

The meeting rose at 1.15 p.m.