



SUMMARY RECORD OF THE 18th MEETING

Chairman: Mr. NAVAJAS-MOGRO (Bolivia)

CONTENTS

AGENDA ITEM 83: EXTERNAL DEBT CRISIS AND DEVELOPMENT (continued)

ORGANIZATION OF WORK

*This record is subject to correction. Corrections should be sent under the signature of a member of the delegation concerned *within one week of the date of publication* to the Chief of the Official Records Editing Section, room DC2 250, 2 United Nations Plaza, and incorporated in a copy of the record.

Corrections will be issued after the end of the session, in a separate fascicle for each Committee.

Distr. GENERAL
A/C.2/43/SR.18
24 October 1988

ORIGINAL: ENGLISH

The meeting was called to order at 3.15 p.m.

AGENDA ITEM 83: EXTERNAL DEBT CRISIS AND DEVELOPMENT (continued)
(A/43/235-S/19674, A/43/287-S/19740, A/43/510-S/20091, A/43/667-S/20212; A/43/184, 370, 373, 399, 480, 538, 587, 647, 671, 692 and 709)

1. Mr. ZVEZDIN (Union of Soviet Socialist Republics) said that 'n recent years the scale of the debt crisis had exceeded the most pessimistic forecasts of the early 1980s, with many developing countries' debt-servicing capabilities becoming weaker due to unpredictable currency and interest rate fluctuations, growing protectionism, extremely low prices for their basic export commodities and an increasing net outflow of resources. A situation in which the developing countries had become net exporters of financial resources, and the World Bank and IMF received more resources from, than they provided to, the developing countries was not normal. The gap in 1987 had amounted to \$US 7 billion.
2. The growth of external debt was also related to the arms race, in which many developing countries had become involved. Speedy implementation of the principle of "disarmament for development" would help to channel considerable resources into constructive objectives and contribute to solving many economic problems, including that of external debt.
3. There was a growing realization that external debt was more than a financial and economic problem, and that it called for a political solution in the context of an in-depth restructuring of the entire system of international economic relations on a democratic and just basis. A long-term solution to the problem would be facilitated by ensuring international economic security and introducing into economic relations between States such fundamental principles as stability, predictability, equality and mutual advantage.
4. The Soviet Union shared the growing concern of the developing countries over the high social costs of structural adjustment programmes. It was essential in drawing up those programmes to take the human factor into account.
5. A number of suggestions had recently been made concerning ways of solving the debt crisis, notably the very interesting proposal of the Philippines relating to the setting up of an authoritative international commission to draw up comprehensive measures for solving the problem of external debt in conjunction with a reform of the international trading system and a restructuring of multilateral financial institutions. The Soviet Union was prepared to give constructive consideration to that proposal and any other proposals which were aimed at finding a just and comprehensive solution to the debt problem.
6. In addition to providing credit to developing countries, the Soviet Union also provided assistance in the form of direct grants, preferential terms of payment for technical assistance, services by Soviet experts, training of national personnel, and preferential terms on export and import prices. The Soviet Union granted long-term, low-interest loans; special assistance was also given in building up export capacity.

(Mr. Zvezdin, USSR)

7. The Soviet Union was following very closely the progress of negotiations being held on the debt problem in IMF, the World Bank and the Paris Club, and believed that it would be useful to establish closer contacts between those organizations and the Second Committee, the Economic and Social Council and UNCTAD with a view to expanding the exchange of information.

8. The meeting of eminent persons convened by the Secretary-General to consider the problem of external debt had been an important step towards revitalizing United Nations participation in practical efforts to settle the debt crisis, and that positive trend should be developed. It was the third time that external debt had appeared on the Committee's agenda and his delegation agreed with the Group of 77 that it was time to draw up specific recommendations.

9. Mr. LABERGE (Canada) said that the debt crisis constituted a major obstacle to growth and development and required urgent attention. The creditworthiness of indebted countries must be restored and the negative transfer of resources ended.

10. The important measures taken during the current year included many instances of forgiveness of official development assistance (ODA) debt, improvements in debt-rescheduling terms and the creation of a "menu" of options to alleviate servicing obligations on official debt.

11. Notwithstanding the considerable progress made, much remained to be done. The debt problem concerned all countries, as nations were becoming increasingly interdependent.

12. The international financial institutions had the technical expertise to deal with that complex problem, and proposals concerning new money and market-oriented debt reduction deserved their careful and urgent consideration. The World Bank and the International Monetary Fund clearly had a central role to play. With regard to the political aspects he hoped that the Committee would succeed in establishing a consensus on the need for continuing momentum and enhanced approaches to the alleviation of debt-servicing burdens.

13. Greater concessional lending by creditor Governments and by international financial institutions was essential for the poorest countries. In 1987 Canada had agreed to forgive over \$US 700 million in ODA debt, and was providing all aid on a grant basis only, concentrating on the poorest sectors of national economies and on the poorest countries. It would also continue its strong support for the World Bank's special programme of action for sub-Saharan Africa, and intended to play an active role in negotiations on the ninth replenishment of International Development Association (IDA) resources, which were critical for the poorest developing countries.

14. Canada welcomed the many innovative proposals for alleviating the debt-servicing burden of middle-income countries. Such measures should be applied on a case-by-case basis consistent with the needs and financial capability of each debtor country.

(Mr. Laberge, Canada)

15. It was increasingly being recognized that sound domestic policies were an essential prerequisite for growth, the generation of domestic savings and the attraction of private investment capital. Furthermore, with the traditional criteria of sound management record, profitability and capacity to repay had become more and more relevant in determining the level and direction of new financing flows. Increased official lending could help alleviate the debt burden, but could not replace private flows. Such flows would not resume, nor would the current negative net transfer of resources be reversed, until commercial lenders regained confidence in the management ability of borrowers and until a policy environment favourable to investment was established.

16. His delegation agreed that the debt problem had to be resolved through economic growth, additional finance, effective domestic policies in the debtor countries and further advances in the debt strategy. The social and developmental implications of adjustment must not be overlooked. Alleviation of the debt burden would remove a serious impediment to the development process.

17. Mr. TEEHANKEE (Philippines) said that although efforts to solve the debt problem had for the most part been frustrating, and indeed traumatic, for the heavily indebted countries, some encouraging developments had recently emerged. An innovative debt conversion scheme had been adopted for Mexico and Bolivia, there had been a general capital increase for the World Bank, a facility had been established to cushion country programmes against adverse external factors, and principal as well as interest concessions had been granted to a number of the poorest countries under the Paris Club rescheduling. At the IMF/World Bank annual meetings, in Berlin in September 1988, the Managing Director of the Fund and the President of the World Bank had both called for a fresh transfer of international resources to developing countries as a means of creating balanced growth and prosperity.

18. The international community had made numerous innovative proposals. They included schemes under which an intermediary would issue its obligations to banks in return for taking over, at a discount, the loans to developing countries; the provision of new money to debtors through increased official flows; the use of official loan guarantees; and the new allocation of SDRs. His delegation particularly appreciated the initiative of Japan to promote a programme for securitizing some of the outstanding debts and rescheduling the remainder, and the proposal of France for a comprehensive solution to the debt problem.

19. The report of the Secretary-General (A/43/647) contained a number of new proposals, all of which centred on the need to deal with the imbalance between debt-service requirements and capacities. Eliminating those imbalances entailed relieving the debtor countries of external financial constraints to their growth.

20. External debt had been identified as one of the main reasons why economic recovery and development continued to elude most developing countries. The overall terms of trade of countries with debt-servicing problems remained unchanged, and the continued negative net transfer of financial resources, which had been

(Mr. Teehankee, Philippines)

especially burdensome for countries in Latin America and the Caribbean, had merely made the situation worse.

21. The Philippines' experience had been similar. It expected negative net resource transfers of \$US 8 billion to continue for the next five years. In 1988 about 28 per cent of its current account receipts would go to service external debt; such levels could not be sustained over the long term. Much of his country's external debt of almost \$US 30 billion had simply been plundered by the ousted dictator or diverted to favoured individuals and firms allowed to borrow large amounts from foreign sources on the guarantee and liability of the Government.

22. States Members of the United Nations had the ability to translate the new approaches to the debt problem into practical policies. The next step should be to formalize a mechanism to complement and facilitate the implementation of measures which countries, multilateral financial institutions and other bodies were called upon to pursue. There was a role for the independent commission proposed by his country's Minister for Foreign Affairs, and his delegation welcomed the support voiced by the USSR delegation. The Secretary-General should expand his personal involvement in the pursuit of suitable measures by engaging in a broad process of high-level consultations with heads of State or Government and heads of relevant specialized agencies and private financial institutions in order to contribute to a common understanding and a common approach towards solving the debt problem.

23. Mr. DJOGHLAF (Algeria) said that, despite the sacrifices made and adjustment policies undertaken by debtor countries at high social and political cost, the prospects of finding a durable solution to the crisis remained as uncertain as ever.

24. Although the current strategy had helped to avert a breakdown of the international financial system, it had not restored normal relations, nor reversed the negative transfer of resources. It had given the international financial system time to protect itself, but had done nothing to reactivate economic growth. Indeed, because of its deflationary effects, the strategy had jeopardized the potential for economic development and the viability of past investments.

25. External borrowing was no longer a means of accelerating economic growth of the developing countries but a further drain on their scant resources. Traditionally purveyors of cheap raw materials and human resources, those countries had become the unwilling sponsors of a system of international economic relations which worked against their vital interests, since external loans had served to increase dependence and widen the economic, social and technological gap between North and South.

26. The external debt crisis reflected the failures that ensued from a misconceived notion of interdependence of nations and showed that the current system was unable to respond to international economic trends or to the common interests of those involved.

(Mr. Djoghlaïf, Algeria)

27. The fact that recent meetings of the Organization of African Unity and of the Organization of American States had been devoted exclusively to the debt problem and that the subject had been discussed at the Toronto Summit meeting was evidence of its highly political nature. The crisis was political because it threatened international peace and security and jeopardized the solvency and internal stability of the countries concerned. Furthermore, its causes were rooted in a system of international economic relations based on domination by the minority, while the dependent majority bore a disproportionate part of the burden.

28. Political will was required of the creditor countries to adopt a new co-operative international strategy, which would take into account repayment capacities and the need for equitable sharing of responsibility. That will should be translated into concrete political actions.

29. Mr. WALTER (Czechoslovakia) said that partial measures to solve the debt problem were no substitute for durable global solutions. While the measures taken so far had been insufficient, they did have a place in the debt strategy. The latter must be devised and implemented on the basis of a developing dialogue. Possible measures would include, for example, a lowering of real interest rates, stabilization of the terms of trade, and various ways of guaranteeing new credits on favourable terms. Such measures could supplement general efforts to achieve macro-economic co-ordination, eliminate the external and fiscal imbalances of a number of countries, remove protectionist barriers, open markets to exports from debtor countries, and end the reverse flow of resources. The Secretary-General's call for adjustment efforts on the part of the creditor countries gave a new and needed dimension to the demand that the crisis should be solved on the basis of shared responsibility.

30. There were still profound differences in the way many countries approached the problem of debt; the interests of creditors must be harmonized with the needs of debtors. It was also necessary to work out measures to prevent debt-servicing from becoming an obstacle to development or a means of economic - or even political - coercion. Many debtor countries had already adopted, on a unilateral basis, a number of measures to defend their interests against the negative effects of debt-servicing and the terms set by international financial institutions.

31. At the previous meeting, the representative of the Ukrainian Soviet Socialist Republic had read out a joint declaration of the socialist countries on the current international monetary and financial situation. The declaration contained a number of views which were also reflected in other recent documents on the subject. Growing awareness of the urgent need to solve the external debt problem had enabled the General Assembly to adopt, two years in succession, a resolution which, together with the Final Act of the seventh session of UNCTAD, offered positive political prospects for solving that global problem.

32. International economic dialogue must be reactivated in the light of the continuing crisis. The work of the Second Committee could facilitate progress in working out a strategy for solving the external debt problem. The initiatives

(Mr. Walter, Czechoslovakia)

designed to restructure international economic relations were also a welcome step in that direction. In that regard, his delegation supported the proposal to convene an international conference on money and finance for development.

33. Mr. LAGO SILVA (Cuba) said that international economic relations continued to be marked by inequality and discrimination. The debt crisis, whose adverse impact was being felt everywhere, favoured those who wished to perpetuate the neo-colonial dependency of third world countries. Although a variety of conventional solutions had been suggested, the external debt had grown to such proportions that it was clearly no longer repayable or collectable.

34. As the Secretary-General had indicated in his report, solving the problem meant reducing debt-servicing obligations and cancelling part of the debt. It could not be solved at the expense of economic growth and development programmes.

35. Latin American had regressed seriously over the past five years. Its external debt had increased almost tenfold. The flows of finance offered so magnanimously by the international banking system had been drastically reduced and Latin America and the Caribbean region had become an exporter of capital. Countries in the region devoted 40 per cent of their exports earnings, on average, to fulfilling their debt-servicing obligations. The situation in Africa was no better; indeed, few African countries were able to meet their financial obligations. As a universal phenomenon, the debt crisis called for solutions involving all States, in preparation for the establishment of a just and equitable system of international economic relations, in other words, a new international economic order.

36. Once the external debt had been cancelled, such an order could be achieved through measures such as the elimination of monopolies in the commodities markets, the abolition of protectionism, increased official development assistance and general flows of resources to the third world, and the ending of capital flight from the developing countries.

37. The major creditor countries must realize the scale of the problem and allow agreements between creditors and debtors based on the concept of shared responsibility. A common strategy must be established to seek mutually beneficial solutions. The economic and commercial potential of the developing countries and their role in the world economy should not be underestimated.

38. Until the crisis had been resolved, there could be no question of achieving durable stability world wide, or sustained economic growth or social progress in the underdeveloped debtor countries. It was time to establish a truly constructive dialogue and to implement effective measures, taking account of those countries' just demands.

39. Mr. SALAZAR (Guatemala) said that any discussion of the external debt problem should recognize the inextricable link between development of trade and reactivation of the development process on the one hand and enhanced capacity to repay one's debts on the other. If an upturn in trade could be achieved and

(Mr. Salazar, Guatemala)

sustained growth reactivated in the debtor countries, the problem of external debt could be resolved. The situation called for considerable political will in order, for example, to end the production subsidies granted in the developed countries at the expense of producers in the third world, and to open up markets to the developing countries. The developed countries must decide what sacrifices to make in order to solve a problem that would inevitably affect their own economies.

40. Guatemala supported the proposal to convene a special session of the General Assembly devoted to the reactivation of economic growth and development in developing countries, and hoped that such a meeting would have appropriate technical and political support.

41. With regard to Central America, he said that there would be no possibility of reactivating that region's economy as long as substantial resources continued to flow out of it. He called for international support for the proposals set out in the special plan of economic co-operation for Central America. Reactivation of economic development in the region would help to reduce political and social tensions and improve trade relations in Latin America as a whole. In view of the strenuous attempts made to re-establish peace in the region and to halt the bloodshed there, the donor countries supporting the special plan should intensify their efforts to relieve the critical situation that existed there.

42. Mr. MALEKO (United Republic of Tanzania) said that the countries of sub-Saharan Africa had very high debt/export ratios owing mainly to the falling volume of some of their commodity exports, which was compounded by declining world commodity prices. That situation called for an immediate solution in order to enable them to accelerate the growth of their domestic savings. The problem had been exacerbated by restricted access to capital markets. The debtor countries were no longer creditworthy, and their access to credit facilities was extremely limited. The small amounts of credit which were made available to those countries were usually accompanied by high interest rates.

43. Developed countries applied stringent protectionist measures to exclude developing countries' exports from their markets. Under such circumstances, the debtor countries were unable to disengage themselves from the vicious circle of debt. For countries which depended on commodity exports, the long overdue establishment of the Common Fund for Commodities would be highly appreciated. Developed countries should assist such countries to take measures to stabilize their primary commodity exports on the basis of the Stabex and Sysmin arrangements under the Lomé Convention between the African, Caribbean and Pacific States and the countries members of the European Economic Community.

44. Some countries had resorted to debt-rescheduling in order to alleviate the debt problem. However that had proved to be expensive, and therefore not an appropriate solution for highly indebted, low-income developing countries. Only highly concessional financial flows would be of use to those countries. Increased IDA and compensatory financing resources would also play a significant role. Creditors should grant special terms to the least developed countries in order to

(Mr. Maleko, United Republic
of Tanzania)

enable them to alleviate the burden of debt which hampered their economic growth and development.

45. His delegation was encouraged by the increased political will shown by some developed countries to seek solutions to the external debt crisis. The seven major industrialized nations had discussed the problem in depth at the Toronto Summit, and he hoped that concrete measures would be taken to implement the measures outlined in the Economic Declaration adopted at that meeting and that consideration would be given to the proposals made by the United Nations Conference on Trade and Development (UNCTAD).

46. His delegation supported the call for a special session of the General Assembly devoted to reactivation of economic growth and development in developing countries. It sincerely hoped that such a session - which should be held not later than 1990 - would adequately address itself to current world economic problems, including the debt problem of developing countries.

47. Mr. CAPRIOLO (Bolivia) said that the external debt crisis had become a major obstacle to growth and development in the developing countries and, indeed, all countries. Debt limited the import capacity of the debtor countries, especially those of Latin America, and that had a negative effect on the balance of trade of the major developed countries.

48. The debt strategy had not produced substantive improvements. Unless the strategy was changed, the situation would worsen or, at best, be no better than it had been when the crisis first began, in 1982. The general debate in the Committee had indicated that major trade and fiscal imbalances would continue throughout the medium term and that growth in the developed countries would be slow. In the current environment of low commodity prices, protectionism and negative transfer of resources, the developed countries' call for greater efforts on the part of the developing countries was clearly anachronistic and would have diminishing results. Without a concomitant alleviation of debt and debt-servicing, any efforts by the developing countries to surmount the adjustment hurdle and reactivate growth and development on a permanent basis would be completely useless. To continue in the same direction without a slackening of external restrictions would only result in increased social debt in the developing countries.

49. Greater consideration should be given to positive developments in the search for a solution to the crisis. The Toronto Summit and the contributions of individual Governments were evidence of a greater awareness of the problem and perhaps could be considered as a beginning of shared leadership in the search for solutions. The growing consensus around the UNCTAD proposal to reduce debt for all categories of debtors merited substantive consideration.

50. Mr. AYUBI (Afghanistan) said that the growing external debt of the developing countries had resulted in a massive reverse flow of financial resources which those

(Mr. Ayubi, Afghanistan)

countries urgently required for their economic development. Developing countries were obliged to pay more than \$70 billion annually in interest to their creditors. That was an unavoidable result of the existing unfavourable economic environment. The current instability of the international monetary situation had further aggravated the debt crisis. Although the restructuring of the debt had had a slight effect on the terms and conditions of payment, it had not solved the problem. His delegation called for long-term solutions through just and reasonable negotiations, on the basis of shared responsibility, to solve the problems of external debt, development, financing and the reactivation of the international economy.

51. The solution of the debt crisis required collective endeavours to eliminate obstacles to economic development in the developing and least developed countries. Moreover, ways must be sought to facilitate sufficient resource flows to the developing countries. Interest rates must be brought down and payment periods extended. Debt-servicing payments should be limited to a percentage of export earnings compatible with individual countries' requirements for economic and social development, and the intolerable conditions set by international financial institutions should be fundamentally changed.

52. Afghanistan believed that the economic security of States was a major requirement for reliable international economic relations, and it supported the implementation of the Declaration and Programme of Action on the Establishment of a New International Economic Order, the launching of global negotiations for international economic cooperation for development and the convening of an international conference on money and finance.

ORGANIZATION OF WORK

53. The CHAIRMAN, in response to requests from a number of delegations, suggested that the report of the Secretary-General on trends in international agricultural markets with special reference to the share of developing countries (E/1988/70) should be included among the documents to be considered under item 82.

54. It was so decided.

The meeting rose at 5.05 p.m.