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EXTERNAL DEBT CRISIS AND DEVELOPMENT

Letter dated 16 October 1986 from the Permanent Representative of
Romania to the United Nations addressed to the Secretary-General

I have the honour to transmit herewith a text entitled "Position of Romania with regard to solving the external debt problem of the developing countries".

I should be grateful if you would have this text circulated as an official document of the General Assembly under item 143 "External debt crisis and development" of the agenda of the current session.

(Signed) Teodor MARINESCU
Ambassador
Permanent Representative

ANNEX

Position of Romania with regard to solving the external debt problem
of developing countries

1. Given the present state of the world economy, characterized by a persistent economic, monetary and financial crisis, the economic situation of the developing countries has worsened considerably, and the economic, technical and scientific gaps between them and the developed countries continue to widen.

Trade and financial relations, and multilateral economic co-operation in general, are in disarray. The international trade system is seriously threatened, and its principles and rules are being violated and evaded more frequently. In recent months, protectionist measures, which are discriminatory in international trade and very particularly so in the case of the developing countries' exports of manufactures, have increased. What is particularly disturbing is the fact that multilateralism is losing ground to bilateralism in both trade and financial co-operation, and this places the developing countries at a disadvantage and makes relations with them more difficult.

But the most serious problem besetting the developing countries is the external debt which has already reached the enormous figure of \$1,000 billion.

2. This alarming situation has arisen because of certain factors independent of the will of the developing countries. These factors include, first and foremost, the policy of high interest rates, high rates of inflation, fluctuating exchange rates, terms of trade unfavourable for the poorest countries, falling prices for most primary commodities and, in general, the inequities of the present system of international economic relations.

The present international banking and financial system and the onerous terms attached to granting credit to the developing countries, including interference in their internal affairs, have unquestionably contributed substantially to their mounting external debt which is becoming a factor of oppression and neo-colonialist exploitation so far as the developing countries are concerned. As a result of these policies and practices, the payments of the developing countries, in terms of interest rates, have grown considerably. International statistics indicate that service of the external debt now absorbs over 30 per cent of the developing countries' export earnings and, in the case of the major debtor and the less developed countries, the debt service burden is even heavier and, in certain cases, exceeds their total export earnings.

3. The increase in the developing countries' external debt burden has severely curtailed their economic development programmes. In some of them there is stagnation and even economic retrogression.

By its size and effects, the external debt of the developing countries aggravates the economic crisis, constitutes a major factor that disrupts and destabilizes the international economy, and affects the economic situation of all

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countries, including the developed countries, by seriously endangering world peace and security.

The international debates so far held on the external debt emphasize that it cannot be considered only in its strictly technical and economic aspects, as it is simultaneously assuming great political and social dimensions considerably accentuated by the imbalance of the international monetary, financial and trade system.

The results of the efforts made to solve the external debt problem are discouraging because the solutions so far proposed have usually been based on a simplistic approach, being focused very particularly on the protection of creditors and their interests, and have devoted little attention to the long-term problems and development requirements of the debtor countries. Most of these requirements are limited to reschedulings of debts, on difficult terms for the debtor countries (high interest rates, short repayment periods), which have actually increased the transfer of resources from the debtor developing countries to the developed countries.

Efforts to solve the developing countries' external debt problem on an individual basis or through partial measures cannot be successful.

4. This being so, Romania believes that the developing countries' external debt problem can be solved only by adopting a global political and economic approach with the participation of all countries, the International Bank for Reconstruction and Development and the International Monetary Fund and other international financial institutions, and representatives of the major banks.

In this connection, gradual measures should be proposed which take into account the development interests of all developing countries, and the stable and harmonious development of the world economy.

Desiring to contribute, together with the countries members of the Group of 77 and other States, to the efforts made to find a practical solution to the external debt problem, Romania again draws the attention of the United Nations to some proposals which may facilitate formulation of a programme for a global solution to the external debt problem. These proposals relate to:

Cancellation of the debts of the poorest countries, whose national income per capita is no more than \$500 to \$600;

A substantial reduction in the debts of developing countries whose per capita income is \$1,000 to \$1,200;

A reduction of approximately 50 to 70 per cent in the debt of other developing countries, subdivided into two or three groups according to their national income and potential;

Rescheduling, over a period of 15 to 20 years, repayment of the outstanding debt, at a reduced interest rate of 3 to 4 per cent, or free of interest, and a grace period of three to five years;

Fixing a ceiling for annual payments of the external debt, which must not exceed 10 per cent of the developing countries' annual export earnings;

Fixing a ceiling for interest rates in respect of previous credits, which must not exceed 3 to 4 per cent; and any amounts paid above this ceiling should be deducted from the total external debt. This proposal takes into consideration the fact that interest payments on certain loans have far exceeded the amount of the initial loan;

Granting, also in the future, new credits to developing countries on favourable terms and at reasonable interest rates not exceeding 5 per cent.

When granting new credits to developing countries, account must also be taken, on a country-by-country basis, of the aims of their economic and social development programmes, of priorities in terms of the exploitation of their natural resources, in which connection a priority must be given to agriculture. In this connection, it would be particularly important for the developing countries to be able generally to repay credits from the proceeds generated in the new units established with the help of such credits.

In order to find a global political and economic solution to the external debt problem, Romania believes that the United Nations must assume greater responsibility, by conducting an in-depth debate covering all the aspects, and that an agreement on this issue must finally be reached by all countries, both developed and developing, with the participation of the international financial institutions.

5. In submitting these proposals, Romania is sure that other ideas and suggestions on ways of solving the external debt problem exist and can be considered. What is important is to make every effort, without further delay, to prevent an explosive situation from arising that would seriously jeopardize world economic development as a whole and world-wide co-operation and peace.

Romania also believes that, concurrently with solving the external debt problem, the efforts to find a global solution for the problems of under-development and to establish a new international economic order should be pursued and intensified.

6. As a member of the Group of 77, Romania fully supported the proposal to include the item entitled "External debt crisis and development" in the agenda of the forty-first session of the General Assembly of the United Nations and believes that this item provides a useful opportunity for considering the problem in depth and agreeing on concrete measures and actions for solving the developing countries' external debt problem on an equitable basis.
