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EXTERNAL DEBT CRISIS AND DEVELOPMENT

Report of the Second Committee

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I. INTRODUCTION

1. At its 3rd plenary meeting, on 20 September 1986, the General Assembly, on the recommendation of the General Committee, decided to include in its agenda the item entitled "External debt crisis and development" and to allocate it to the Second Committee.
2. The Committee held a general discussion on this item at its 10th to 13th and 15th and 16th meetings, on 14 to 16 and 17 and 20 October. An account of the discussion of the Committee is contained in the relevant summary records (A/C.2/41/SR.10-13, 15 and 16). Attention is also drawn to the general debate held by the Committee at its 3rd to 9th meetings, on 6 and 8 to 10 October 1986 (A/C.2/41/SR.3-9).
3. For its consideration of the item, the Committee had before it the following documents:
 - A/41/643 Report of the Secretary-General entitled "International debt situation in mid-1986"
 - A/41/667 Letter dated 30 September 1986 from the Permanent Representative of the German Democratic Republic to the United Nations addressed to the Secretary-General
 - A/41/772 Letter dated 21 October 1986 from the Minister for Foreign Affairs of Peru addressed to the Secretary-General

- A/41/674 Letter dated 2 October 1986 from the Permanent Representative of Yugoslavia to the United Nations addressed to the Secretary-General
- A/C.2/41/4 Letter dated 16 October 1986 from the Permanent Representative of Romania to the United Nations addressed to the Secretary-General

4. At the 10th meeting, on 14 October, the Under-Secretary-General for International Economic and Social Affairs made an introductory statement (see A/C.2/41/SR.10, paras. 2-12).

II. CONSIDERATION OF PROPOSALS

Document A/C.2/41/L.5 and draft resolution A/C.2/41/L.71

5. By decision 40/477 of 20 June 1986, the General Assembly, on the recommendation of the Second Committee, decided to defer until its forty-first session consideration of and appropriate action on draft resolutions entitled "External debt crisis and development" and "Debt and related issues", which read as follows:

"External debt crisis and development"

"The General Assembly,

"Recalling its resolutions 3201 (S-VI) and 3202 (S-VI) of 1 May 1974, containing the Declaration and the Programme of Action on the Establishment of a New International Economic Order, 3281 (XXIX) of 12 December 1974, containing the Charter of Economic Rights and Duties of States, and 3362 (S-VII) of 16 September 1975 on development and international economic co-operation,

"Recalling its resolutions 2807 (XXVI) of 14 December 1971, 3039 (XXVII) of 19 December 1972, 31/158 of 21 December 1976, 32/187 of 19 December 1977 and 33/159 of 20 December 1978, concerning the problem of the external debt of developing countries,

"Recalling also Trade and Development Board resolutions 165 (S-IX) of 11 March 1978 1/ and 222 (XXI) of 27 September 1980, 2/

"Profoundly concerned at the present state of the world economy and, in particular, at the acute problems of the developing countries whose economies are being affected by an adverse external environment manifested, among other

1/ Official Records of the General Assembly, Thirty-third Session, Supplement No. 15 (A/33/15), vol. I, part two, annex I.

2/ Ibid., Thirty-fifth Session, Supplement No. 15 (A/35/15), vol. II, annex I.

factors, by volatility of critical economic variables and the inconsistent macro-economic policies pursued by some major developed countries without effective multilateral surveillance of their objectives and consequences, threatening the economic, social and political stability of developing countries.

"Stressing that the problem of the external debt crisis of developing countries is a direct consequence of the prevailing world economic environment, reflective of the existing inequalities and unjust international economic order,

"Bearing in mind the priority given to the problem of the external debt crisis by the great majority of Heads of State and Government and foreign ministers during the present session of the Assembly, and their profound concern about the negative impact of the crisis on the development process and on international stability, its effects on the purpose, set out in the Charter of the United Nations, of achieving international co-operation in solving problems of an economic and social character,

"Profoundly concerned at the adverse impact on developing countries resulting from the enormous and increasingly unbearable burden of servicing their growing foreign debt, which is particularly aggravated by the negative impact of the adjustment process, lack of access to financial markets, high real interest rates, exchange rate fluctuations, reverse flow of financial resources from developing to developed countries, stagnation and even decline in official development assistance in real terms and deteriorating terms of trade of developing countries, as well as sharp falls in commodity prices and escalating protectionism in the developed countries,

"Stressing that developing countries have undertaken strenuous adjustment efforts at enormously high political, social and economic cost, in many cases as demanded by the international financial and banking institutions, inter alia, through International Monetary Fund conditionality, which have resulted in unemployment and recession and in the impairment of their capacity to grow and develop, and that periodical rescheduling of debt payments, in many cases, postpones the problem, aggravating its final consequences,

"Reaffirming that, while countries have recognized their international obligations in relation to debt, the financial obligations undertaken by debtor developing countries with creditors from developed countries and multilateral financial institutions have become, under present circumstances, unbearable and that, unless urgent, genuine, just, equitable and durable solutions are found by the international community, these obligations may become, for some of them, beyond the capacities of their economies,

"Conscious of the necessity to take into account the critical economic situation in Africa, which requires a long-term solution through the sustained development and economic growth of African countries whose heavy external debt burden per capita is mainly one of insolvency and constitutes a major obstacle to their long-term development prospects; noting that for African countries, as for many of the other developing countries, debt-service payments account

for almost half of all foreign exchange earnings, which are derived from a very limited number of primary commodities with declining prices and depressed markets; and noting also that in the African region the reverse transfer of resources which afflicts developing countries is made even more intolerable by their heavy dependence on official development assistance and the limited access to credit facilities from financial markets,

"Convinced, therefore, that the problem of the external debt of developing countries can no longer be viewed only in its narrow technical aspects or in relation to its economic characteristics and that it requires political treatment and a comprehensive approach involving debtor developing countries and creditor developed countries, as well as international financial and banking institutions, all of which share responsibility in the solution of the debt problem of the developing countries,

"1. Reaffirms that the economic and social development of developing countries constitutes an essential priority for all countries, and that such development is being negatively affected, inter alia, by the problem of the external debt crisis;

"2. Urges the Governments of creditor developed countries and debtor developing countries, as well as international financial and banking institutions, to jointly find a mutually agreed, genuine, just, equitable and durable solution to the debt problem of developing countries that would reflect their shared responsibilities; such a solution, based on the urgent need to reactivate the development process of the developing countries, should be sought within the framework of, inter alia, the following guidelines:

"(a) Equity and symmetry between developed and developing countries in the distribution of the costs of the economic adjustment process;

"(b) Lower and stable interest rates, the stretching out of payments, grace and consolidated periods;

"(c) Improved and stable access to markets; standstill and roll-back of protectionism;

"(d) Reversing the trend towards disruptive market practices, discrimination and managed trade;

"(e) Stabilization of commodity markets with fair and remunerative prices;

"(f) Reverse of the net outflow of financial resources from developing to developed countries;

"(g) Reinitiation of the financial flow of resources for development;

"(h) Limiting debt-service payments to a percentage of export earnings compatible with the development needs and the economic and social requirements of each country;

"(i) Easing of the conditionality applied, inter alia, by the International Monetary Fund and avoidance of cross-conditionality;

"(j) Special treatment, in particular for the poorer and least developed countries in the solution of their serious external debt problems;

"3. Calls for the full and urgent implementation of resolutions 165 (S-IX) and 222 (XXI) of the Trade and Development Board;

"4. Calls upon creditor developed countries and multilateral financial and banking institutions to urgently adopt concrete measures for the solution of Africa's indebtedness; such measures should include action on terms and conditions of the existing external debt and the provision of additional financial resources at concessional terms to assist the African debtor countries in resuming the process of economic growth and development;

"5. Requests the Secretary-General to take the necessary initiatives that will contribute to the fulfilment of the objectives of the present resolution, and to report to the General Assembly, at its forty-first session, on the evolution and advance of this process, in particular according to the guidelines set out in operative paragraph 2 above."

"Debt and related issues

"The General Assembly,

"Concerned at the adverse impact on the growth prospects of many developing countries resulting from a heavy debt burden, which has been aggravated by a combination of developments, including high interest rates, instability in exchange rates, a recent weakening of export markets, lower commodity prices, problems in domestic economic management and difficulties in re-establishing access to capital markets,

"Convinced that sustained economic growth, both in developed and developing countries, is essential for solving debt problems and that sustained growth requires continuous economic adjustment, and in this context noting the adjustment efforts already undertaken by many countries,

"Convinced that an open and multilateral trading system, in particular enhanced export possibilities for developing countries, is necessary to improve growth and development perspectives, and for generating the revenues necessary for the developing countries to service their debt,

"Stressing the importance of a stable international monetary environment and in this context welcoming the recent decline in interest rates and the measures to ensure a better adjustment of the major exchange rates to economic fundamentals,

"Recognizing that debt circumstances vary from country to country and

that debt relief measures accordingly must be addressed on a country by country basis,

"Recognizing also that rescheduling operations are being implemented taking into account the debt-service capacity of debtor countries and that these actions are pursued in an international framework with flexibility and pragmatism,

"Recognizing that it is in the interest of both creditors and debtors that debt commitments are fulfilled,

"Welcoming the consensus that emerged at the recent meetings of the International Monetary Fund and the World Bank to the effect that determined policies and further actions are needed to achieve the twin goals of resolving the debt problems in a constructive way and of assuring sustained non-inflationary growth throughout the world economy based on international co-operation and noting that the same issues were addressed at the last session of the Trade and Development Board,

"1. Urges a further strengthening of international economic co-operation aimed at resolving debt problems and ensuring non-inflationary, sustained world economic growth;

"2. Stresses the need, in fostering sustained world economic growth, for convergent economic policies, particularly among major industrialized countries, in order to broaden the basis for non-inflationary expansion of the world economy and to correct persistent economic and financial imbalances;

"3. Calls upon the debtor countries to continue their adjustment efforts in order to establish the necessary conditions for resumed economic growth and alleviation of the debt burden;

"4. Calls for further determined and concerted action aimed at strengthening the open and multilateral trading system and reversing protectionist trends and in this context welcomes the preparation for a new and comprehensive round of multilateral trade negotiations within the framework of the General Agreement on Tariffs and Trade;

"5. Calls for further determined action to improve the functioning of the international monetary system and to seek greater stability in exchange markets;

"6. Stresses the need for improving the stability and predictability of earnings from commodities and primary products, which constitute a major source of foreign exchange for many developing countries;

"7. Stresses the importance of ensuring adequate national and international resource flows to developing countries from both private and public sources, including official development assistance, in support of adjustment efforts and emphasizes in this context the crucial role played by the International Monetary Fund and the World Bank;

"8. Calls for full implementation of the Trade and Development Board resolutions 165 (S-IX) of 11 March 1978 3/ and 222 (XXI) of 27 September 1980 4/ and further invites the multilateral assistance institutions to take into account in their lending programmes for least developed countries the overall debt-service burden of those countries;

"9. Commends the growing spirit of dialogue and co-operation in working towards equitable, durable and mutually agreed approaches in support of adjustment and long-term growth, reflected in recent international economic meetings and statements, in particular through the initiatives of the International Monetary Fund and the World Bank to consider the debt problems in a broader context."

6. At the 36th meeting, on 28 November, the Vice-Chairman of the Committee, Mr. Oscar de Rojas (Venezuela), introduced a draft resolution (A/C.2/41/L.71) entitled "Strengthened international economic co-operation aimed at resolving external debt problems of developing countries", submitted in his name and on the basis of informal consultations.
7. The Chairman made a statement.
8. At the same meeting, the Committee adopted draft resolution A/C.2/41/L.71 (see para. 13).
9. After the adoption of the draft resolution, statements were made by the representatives of Yugoslavia (on behalf of the States Members of the United Nations that are members of the Group of 77), Norway, the United Kingdom of Great Britain and Northern Ireland (on behalf of the States Members of the United Nations that are members of the European Community), the United States of America, Japan, Poland, Canada and Somalia.
10. At the 36th meeting, on 28 November, the representative of Yugoslavia, on behalf of the States Members of the United Nations that are members of the Group of 77, made a statement in which he proposed that consideration of the draft resolution entitled "External debt crisis and development" be deferred to the General Assembly at its forty-second session.
11. At the same meeting, the representative of the United Kingdom of Great Britain and Northern Ireland, on behalf of the States Members of the United Nations that are members of the European Community, made a statement in which he proposed that consideration of the draft resolution entitled "Debt and related issues" be deferred to the General Assembly at its forty-second session.

3/ Official Records of the General Assembly, Thirty-third Session, Supplement No. 15 (A/33/15), vol. I, part two, annex I.

4/ Ibid., Thirty-fifth Session, Supplement No. 15 (A/35/15), vol. II, annex I.

12. At the same meeting, upon the proposal of the Chairman, the Committee decided to recommend to the General Assembly to defer until its forty-second session consideration of the draft resolutions contained in document A/C.2/41/L.5 entitled "External debt crisis and development" and "Debt and related issues" (see para. 14).

III. RECOMMENDATIONS OF THE SECOND COMMITTEE

13. The Second Committee recommends to the General Assembly the adoption of the following draft resolution:

Strengthened international economic co-operation aimed at resolving external debt problems of developing countries

The General Assembly,

Noting its decision 40/474 of 20 June 1986, and related annexes thereto, 5/

Recalling Trade and Development Board resolutions 165 (S-IX) of 11 March 1978 6/ and 222 (XXI) of 27 September 1980, 7/

Having considered the report of the Secretary-General entitled "International debt situation in mid-1986", 8/

Taking note of the statements made by Member States under this item, particularly in the meetings held in the plenary and the Second Committee of the General Assembly during its fortieth and forty-first sessions, 9/

Recognizing that debt servicing problems constitute a severe, restrictive and continuing burden for the economic and social development of many developing countries,

5/ Official Records of the General Assembly, Fortieth Session, Annexes, agenda item 84, documents A/40/989/Add.14, paras. 7 and 11, A/40/989/Add.3, para. 66, and A/40/989/Add.14, para. 12.

6/ Ibid., Thirty-third Session, Supplement No. 15 (A/33/15), vol. I, part two, annex I.

7/ Ibid., Thirty-fifth Session, Supplement No. 15 (A/35/15), vol. II, annex I.

8/ A/41/643.

9/ See Official Records of the General Assembly ...

1. Agrees on the following elements and invites all those involved to take them into account in addressing the problems of external indebtedness of developing countries, with a view to reaching equitable, durable and mutually agreed solutions, taking into account the particular circumstances of each country:

(a) External indebtedness, viewed in an overall approach, should be tackled in the framework of a strengthened and improved strategy of co-operation of the international community for sustained world economic growth and development, particularly for developing countries;

(b) Recognizing the competence of the multilateral financial institutions, as well as that of the relevant specialized agencies, organs, organizations and bodies of the United Nations system in their respective mandates, the interrelated issues of debt, money, finance, resource flows, trade, commodities and development should be addressed in the context of their close interrelationship;

(c) In a spirit of common commitment and mutual co-operation, stronger growth and development in developing countries should be encouraged, involving the participation of all countries concerned, particularly creditor developed countries and debtor developing countries, multilateral financial institutions and international private banks, in addressing the debt problems of developing countries;

(d) A lasting solution to the debt problem also requires simultaneous and complementary actions in the areas of economic policy that are mutually supportive and envisages:

- (i) Effective national adjustment processes and structural changes, pursued within national development priorities and objectives, should be growth-oriented; due regard should be paid to the economic, social and development needs of each country in the application of conditionality;
- (ii) Supportive policies that encompass, inter alia, the dismantling of protectionism and expansion of international trade, increased financial flows, lending programmes by the international financial institutions and commercial banks in support of growth-oriented measures, lower real interest rates, and improvements in commodity markets;
- (iii) Coherent and co-ordinated policies on the part of industrialized countries, including strengthened multilateral surveillance, that promote a supportive international economic environment conducive to sustained and non-inflationary growth and adjustments addressing the imbalances in the world economy, including the reduction of trade imbalances and the promotion of greater foreign exchange market stability;

(e) There is an important relationship between a country's mobilization and utilization of its resources, net inflow of development finance and capital and foreign exchange export earnings, and the possibility for the servicing of its external debt; in this context, due account should be taken of the investment and import requirements and the fundamental economic and social needs of a country's population;

(f) Debt-restructuring arrangements and innovative development-oriented financial agreements should continue to be worked out, wherever appropriate, on terms and conditions that take into account the internal and external factors affecting the economy of the country concerned;

(g) Special attention should be given to the implementation of specific relief measures in favour of the least developed countries such as, inter alia, those contained in the Substantial New Programme of Action for the 1980s for the Least Developed Countries 10/ and Trade and Development Board resolution 165 (S-IX) of 11 March 1978;

(h) Recognizes, in addition to the above elements, that in dealing with Africa's external indebtedness, the magnitude and servicing constitute a severe, restrictive and continuing burden for its economic recovery and long-term development. The international community, particularly the donor developed countries, reaffirm their agreement to adopt concrete measures, as well as on the importance of increasing official development assistance to Africa in support of adjustment efforts for development of African countries, in accordance with the provisions of the United Nations Programme of Action for African Economic Recovery and Development 1986-1990; 11/

2. Invites also all those involved to take into account, as appropriate, the above in addressing the problems of external indebtedness of some other countries with serious debt-servicing problems;

3. Requests the Secretary-General to submit to the General Assembly at its forty-second session an updated version of his report on the international debt situation and the indicators related to it, under the same agenda item, taking into account the present resolution.

14. The Second Committee also recommends to the General Assembly the adoption of the following draft decision:

10/ Report of the United Nations Conference on the Least Developed Countries, Paris, 1-14 September 1981 (United Nations publication, Sales No. E.82.I.8), part one, sect. A.

11/ Resolution S-13/2.

External debt crisis and development and debt
and related issues

The General Assembly decides to defer to its forty-second session consideration of the draft resolutions entitled "External debt crisis and development" and "Debt and related issues". 12/

12/ See document A/C.2/41/L.5.