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SUMMARY RECORD OF THE 23rd MEETING

Chairman: Mr. BURKE (Ireland)

CONTENTS

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

AGENDA ITEM 81: EXTERNAL DEBT CRISIS AND DEVELOPMENT (continued) (A/46/264, A/46/317-S/22823, A/46/323-S/22836, A/46/336, A/46/415, A/46/520; A/C.2/46/L.6)

1. Mr. GUERRERO (Philippines) said that his country's external debt, which exceeded $US 29 billion, was equivalent to 70 per cent of its gross domestic product (GDP). Each year, the Philippines allocated 40 per cent of its annual budget, or one third of its export revenues, to service that debt. If the Philippines were not burdened with such a huge debt, it could use more funds to bolster its social and economic services, which currently received only 22 per cent of the national budget. In addition, the purchase of more equipment and the import of new technologies would enhance the country's economic growth and development.

2. The Philippines was unable to pursue its development and structural adjustment programmes to the extent it wished because it must continue to pay its debts, even though in some cases it had already fully repaid their net value, and even though they had been inherited from an authoritarian Government which had contracted them for spurious purposes. The Philippines would never neglect its obligations, despite the typhoons, floods and volcanic eruptions that plagued its territory.

3. Many creditor countries were fully aware of the gravity of his country's situation, which was comparable to that of other low-income and heavily indebted developing countries. Those creditor countries which had forgiven the official debt of one or two countries in particularly difficult circumstances had not done the same for all countries, and limited themselves to rescheduling or discounting debt, or to granting new loans for the payment of old debts, thereby helping to perpetuate and increase the debtor's burden. However, the Philippines and many other countries had not declared a unilateral moratorium, put a cap on debt payments, selectively repudiated some debts or declared their complete inability to make further payments. On the contrary, they accepted the necessary sacrifices and continued to service their debts.

4. In any case, a refusal to fulfil debt obligations at the current moment in history would have disastrous consequences, since it could prompt the interruption of the flow of resources necessary for the growth and development of debtor countries, which needed direct foreign investments and access to external markets.

5. Although the General Assembly, in resolution 45/214, had welcomed the willingness of several creditor countries to reduce and/or write off the stock and debt servicing of many developing countries, its concerns clearly had not been limited to low-income and least-developed debtor countries, since it had also stressed the urgent need for the broadest and most expeditious implementation of the recent initiatives and for building upon them. Those

(Mr. Guerrero, Philippines)

words, which echoed the relevant provisions of the International Development Strategy for the Fourth United Nations Development Decade, meant that realistic solutions could no longer be postponed, at the risk of causing the developing countries to collapse politically and economically beneath the weight of an insupportable burden.

6. Ms. HARPER (Canada) said that many developing countries which had implemented strong economic adjustment programmes had benefited from debt relief measures, including debt reduction. Despite such progress, however, the debt crisis was serious and particularly affected the poorest and most heavily indebted countries. That was why the leaders of the seven major industrialized countries, at the London Summit in July, had not only reaffirmed the need for additional debt reduction beyond that granted under the Toronto terms, but had also called upon the Paris Club to implement the new measures promptly and to continue to examine the situation of lower-middle-income countries on a case-by-case basis.

7. Debt reduction could successfully promote sustainable growth and reduce poverty only in the context of effective economic adjustment by the recipient country. In the short term, developing countries should pursue macroeconomic measures to stabilize the domestic economy, without sparing efforts to improve social conditions and governance. In that regard, the best results were achieved when inefficient State sectors were dismantled in the context of a market economy which offered opportunities and incentives to local entrepreneurs and cooperatives, and which integrated all citizens, including women, in the country's economic life.

8. Economic reform was not an end in itself, but rather a means to improve efficiency and thereby contribute to the reduction of poverty. It was therefore necessary to protect the most vulnerable sectors of society and to increase their productivity so as to bring them into the economic mainstream. Priority attention must also be given to the rural economy, to human resource development in general, to primary health care and to education.

9. Clearly, domestic reforms would achieve maximum results only in a favourable international economic climate. Countries which sought to increase their exports must ensure that their products were competitive and must find accessible markets for them which operated under clear and transparent rules guaranteeing fair competition. That was why Canada was working strenuously for the successful completion of the Uruguay Round of trade negotiations.

10. It was also important that developing countries should receive adequate economic assistance. Canada was especially careful to maintain its level of official development assistance (ODA) in areas such as sub-Saharan Africa; it had forgiven over $Can 1.1 billion in development assistance loans and had been one of the first countries to switch from that type of assistance to grants, so as not to increase the stock of debt.

(Ms. Harper, Canada)

11. In sum, debt problems required solutions in which developed and developing countries worked in partnership. Canada remained committed to the urgent task of helping to find such solutions.

12. Mr. AMAZIANE (Morocco) said that in 1990, the external debt of the developing countries had increased by 6 per cent over the 1989 level, for an increase of $80 billion in a single year. Consequently, the debt represented half the total gross national product (GNP) of the developing countries and approximately twice the total amount of their annual export income. The composition of those countries' debt had changed drastically during the 1980s: the portion represented by public debt had tripled since 1980 and constituted 42 per cent of the total, while debts owed to multilateral creditors had increased to 19 per cent of the total debt, compared to 15 per cent in 1985. At the end of 1989, arrears had amounted to $79 billion.

13. In 1990, the net transfer of resources from developing countries had been $24 billion and, in view of very high interest rates and the profits from foreign investments projected for 1995, the developing countries would continue to export to the developed countries more goods and services than they received.

14. ODA to the developing countries had fallen, and the danger that part of it might be allocated to the countries of Eastern Europe and the Soviet Union, as had occurred with food aid, could not be ruled out. The growth rate in developing countries' exports had been 8 per cent, resulting in a 2 per cent reduction in the debt to export ratio. According to the World Bank, that modest improvement was a result of the Brady Plan, the decisions adopted by the Paris Club to soften the terms of debt restructuring, the continuation of other debt relief programmes and the increase in exports from some developing countries. In fact, the improvement had been due mainly to the increase in earnings from oil exports and had therefore been of no benefit whatsoever to the energy-importing developing countries.

15. Despite the debt-reduction initiatives so far taken, everyone agreed that the debt crisis had not been resolved. His country reiterated the position long held by the developing countries that the debt crisis was a political rather than a technical problem and that political will was required in order to resolve it. To confirm that view, one need only look at the reasons why the solutions adopted by the international community since 1982 had not been wholly successful. The international strategy for debt management continued to focus on resolving problems on a case-by-case basis whereas what was needed was a global approach.

16. The Brady Plan launched in 1989 made provision for a 20 per cent reduction in the commercial debt of the 17 developing countries included in the category of heavily-indebted middle-income countries, which were applying structural adjustment programmes approved by IMF and the World Bank. The debt relief afforded by the Brady Plan had not lived up to the expectations of the

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(Mr. Amaziane, Morocco)

countries concerned and had not enabled them to regain solvency and access to external capital markets.

17. The main problem encountered by the Brady Plan had been lack of financial resources, since only $6.4 billion of the $20 billion earmarked for funding the plan had been spent. In the face of the disappointing results of the Brady Plan and the accumulation of arrears, a number of developing countries had been obliged to resort to other debt-reduction programmes with commercial banks. Debt-equity swaps had made it possible to reduce the developing countries' debt by $34 billion between 1985 and 1989. However, debt for environment, debt for health and debt for education schemes had done little to alleviate debt, since the amounts involved had been minimal. Conversion programmes had been suspended in 1989 because of their inflationary effects and from 1990 onwards had been tied to privatization programmes. In any case, it should be remembered that debt-conversion schemes offered only limited respite to debtor countries, since they could generate balance-of-payments pressures once the profits, dividends and capital produced by such operations had been repatriated.

18. Various measures had been taken to resolve the debt problems faced by the heavily-indebted low-income countries, including the writing-off of $8 billion of debt under official development assistance, the rescheduling of $5 billion within the framework of the Toronto terms, and the resources provided on favourable terms under the structural adjustment programme, the Structural Adjustment Facility and the Enhanced Structural Adjustment Facility. Total debt cancellation for those countries had increased considerably since October 1990 and was now in excess of $11 billion. Nevertheless, further measures were needed to support adjustment and help those countries regain external solvency.

19. With that in view, fresh initiatives had been proposed or adopted, such as the United Kingdom's September 1990 proposal to reduce the volume of debt of the poor countries by two thirds under the Trinidad terms, the Netherlands' proposal to write-off the bilateral public debt of poor indebted countries which agreed to follow "rational" economic policies, and the recognition by the London summit that new measures were needed to alleviate debt in those countries. However, it was to be regretted that the London summit had failed to put forward recommendations concerning the size of such additional relief, particularly as it had been acknowledged that the countries concerned merited special treatment. It was also regrettable that the treatment accorded to some middle-income countries such as Poland had been designated "exceptional" and could therefore not be extended to other countries.

20. Public debt relief for the middle-income countries had aroused hopes which unfortunately had not been fulfilled. At the annual joint meeting of IMF and World Bank, the Managing Director of IMF had stressed the need to take new decisions to ease the debt burden of the poorest countries and the middle-income countries and had expressed the hope that official creditors

(Mr. Amaziane, Morocco)

would find solutions to the debt problem of those middle-income countries heavily indebted to public creditors, as they had already done in a number of cases, including that of Poland.

21. In 1990 the multilateral debt of the developing countries had reached $235 billion, in other words more than 19 per cent of the total debt owed by those countries, as compared to 18 per cent in 1989. Despite the readiness of the debtor countries to meet their obligations to multilateral institutions and thereby avoid financial isolation, at the end of the 1991 financial year there were 17 countries in arrears with their payments to the World Bank and the IMF. There were those who felt that the statutes of the multilateral institutions should be amended to allow rescheduling, and even reduction, of the debt of countries in arrears.

22. Despite the positive achievements of the international debt-reduction strategy, the Secretary-General pointed out in his report (A/46/415) that it would be premature to claim that the crisis was almost over. The debt-reduction strategy had undeniably saved the international financial system from disaster, but it had not enabled the debtor countries to resume their economic growth and regain their solvency. The debt relief given to the indebted countries had been extremely modest, while the markets of the North continued to be dominated by a protectionist approach which exerted a further adverse influence on the finances of the developing countries, given that freer access to those markets would enable them to increase their export earnings by a proportion equivalent to the ODA they received. Hence the vital importance of the multilateral negotiations for the Uruguay Round. In additional real interest rates on the international financial markets continued to be very high, thereby increasing the developing countries' debt artificially. Every percentage point increase in those interest rates meant an additional debt burden of $4 billion, completely cancelling out the modest reductions allowed to the indebted countries.

23. The industrialized countries should therefore apply to themselves the same adjustment measures they advocated for the developing countries, so that in the long term real interest rates would be at a level compatible with world-wide economic recovery. The conference on development financing proposed by the Secretary-General would be an ideal opportunity to secure a global consensus on a strategy aimed at reactivating economic growth in the developing countries, ensuring the success of the process of transition in Eastern Europe and the Soviet Union, and remodelling the international financial and monetary system to make it responsive to the development needs of the world as a whole on the eve of the third millenium.

24. His delegation called on the international community to give serious consideration to the report (A/45/380) submitted to the General Assembly at its forty-fifth session by the Personal Representative of the Secretary-General on Debt, Mr. Craxi, whose proposals reflected the concerns of the

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(Mr. Amaziane, Morocco)

indebted countries. It would like to see those proposals translated into action. Finally, his country wished to reiterate its support for the proposal contained in Mr. Craxi's report that a Mediterranean African Development Bank should be set up.

The meeting rose at 4 p.m.