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Wednesday, 14 October 1987
at 3 p.m.
New York

SUMMARY RECORD OF THE 13th MEETING

Chairman: Mr. OUDOVENKO (Ukrainian Soviet Socialist Republic)

later: Mr. SHAABAN (Egypt)

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AGENDA ITEM 35: ... NAL DEBT CRISIS AND DEVELOPMENT (continued)

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The meeting was called to order at 3.05 p.m.

AGENDA ITEM 85: EXTERNAL DEBT CRISIS AND DEVELOPMENT (continued) (A/42/157, 354, 357, 359, 410, 411, 477, 523, 562, 604; A/C.2/42/L.9)

1. Mr. BROWN (Canada) said that in the past year a common frame of reference had emerged on the external debt issue, as demonstrated by the adoption by consensus of resolution 41/202, section II of the Final Act of UNCTAD VII and the recent communiqués from the Interim Committee and the Development Committee. The common features of the three texts were: confirmation of the practical utility of a case-by-case approach to the debt problem, a recognition that structural adjustment packages should be growth oriented and a commitment to increased resources for, and greater co-operation among, international financial institutions.

2. In addition, all three texts recognized the importance of an appropriate domestic framework and the need for the international community to support the adjustment efforts of indebted countries by resisting protectionism, improving economic policy co-ordination so as to promote world economic growth in an environment of stable exchange rates and declining inflation and interest rates, and adopting innovative rescheduling procedures so as to help increase the flows of resources to indebted countries. There was also general agreement concerning the urgent need for special measures for the poorest debtor countries, particularly in Africa, the need for more imaginative solutions such as debt equity arrangements and the need for enhanced trade performance and for developing countries to implement structural adjustment programmes.

3. Convinced of the importance of the issue, Canada had supported proposals to increase the resources of the relevant multilateral agencies and had advocated the adoption of new methods to tackle the debt issue and of initiatives to write off that part of public debt contracted by the poorest countries with the Canadian International Development Agency.

4. Mr. WALTER (Czechoslovakia) said that the external debt of the developing countries, which already amounted to over $1 billion and was causing a tremendous reverse transfer of resources, was a very serious impediment to development.

5. The rescheduling measures adopted so far to resolve the problem, which were based on the mistaken assumption that the debt could be repaid without changing international economic relations, had failed. The new measures, such as debt equity arrangements, increased foreign influence on the developing economies and the discounts granted in such arrangements raised the level of indebtedness, particularly in a context of rising interest rates; those measures would also fail.

6. Many banks in anticipation of losses had begun to increase their reserves, some debtor countries were suspending part of their debt-service payments and opposition to the adjustment and austerity programmes imposed by the International Monetary Fund was growing. In that situation unless the rigid positions inherited from the colonial past were changed and the needs of the developing countries were

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(Mr. Walter, Czechoslovakia)

taken into account, there would be an escalation of confrontation which would threaten international economic security.

7. As had been pointed out at the recently concluded International Conference on the Relationship between Disarmament and Development the arms race had a disastrous influence on development because it diverted substantial flows of resources to military purposes. His delegation was convinced that a decrease in military spending, the curbing of the arms race and implementation of the principle "disarmament for development" would contribute greatly to the solution of the debt problem.

8. The document entitled "On the Elimination of Underdevelopment and the Establishment of a New International Economic Order" (A/42/314), which had been adopted in Berlin by the member countries of the Warsaw Treaty, drew attention to the interrelationship that existed between the solution of the external indebtedness problem of developing countries and the establishment of a new international economic order. The complex and global nature of the problem required a broad political approach. The socialist countries had proposed the concept of international economic security as part of a comprehensive system of international peace and security in order to build confidence in international relations. It should also be pointed out that monetary and financial relations must not be used to put pressure on the indebted countries and that the external debt problem must not be settled at the expense of the economic and social development of developing countries.

9. After referring to the urgent need for immediate measures on behalf of the least developed countries, he drew attention to the importance of such measures as limiting yearly payments to a percentage of the debtor countries' export earnings, reducing interest rates, paying loans with products from the debtor countries and opening up the markets to those products. Steps must also be taken to halt the outflow of resources, stabilize exchange rates and honour commitments concerning the elimination of protectionism and democratization of the international financial and monetary system. Czechoslovakia supported the developing countries' proposal regarding the convening of an international conference on money and finance under the auspices of the United Nations.

10. Document A/42/603 contained information regarding the assistance given by Czechoslovakia to the developing countries. In 1986 that assistance had amounted to 1.08 per cent of Czechoslovakia's national income and had consisted in large measure of loans which, because of their low interest rates and favourable conditions, might be considered grants. In many cases, Czechoslovakia agreed in practice to import finished products as a form of debt servicing.

11. Mr. GRECU (Romania) recalled that, in 1986, the debt burden of the developing countries had risen to over $1 billion and had represented 169 per cent of those countries' total exports. The problem, which was aggravated by the excessively high interest rates, worsening international trade and the decline in commodity prices, threatened not only world economic growth and international financial stability but also international peace and security.

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(Mr. Grecu, Romania)

12. The approach proposed by the creditor countries to resolve the debt problem continued to be inequitable, asymmetrical and partial. The premise that the debt must be honoured in full had come to be disproved, both in the market-place and in the unilateral actions of some debtors, and opposition to the adjustment programmes imposed by international financial institutions was growing. As the Secretary-General of UNCTAD had pointed out, in many developing countries measures designed to encourage higher domestic savings, such as raising the level of real interest rates, had been used to pay interest on the foreign debt rather than to finance new investments.

13. The international community must adopt a new political strategy based on shared responsibility and co-operation among all interested parties and taking into account the level of development and capacity to pay of each country. Romania had submitted proposals in that regard both in the United Nations and in other forums. Those proposals included cancellation of the debt of the poorest countries, reduction of the debt of other countries according to their per capita income, rescheduling of the outstanding debt over a period of 15 to 20 years at a minimum rate of interest or even interest free, and setting a ceiling of 10 per cent of the annual export earnings of the developing countries on annual external debt payments.

14. His delegation had submitted a series of proposals concerning the item "external debt crisis and development", which were contained in document A/42/562. In the view of his delegation the General Assembly must appeal to all developed creditor countries, banks and international financial institutions to set a moratorium of at least five years on all loans already granted to developing countries; a ceiling of not more than 5 per cent should be set on the interest applied to outstanding loans; interest on future loans should not exceed 4 to 5 per cent; banks should, in turn, pay up to 5 per cent interest on deposits; the developing countries should continue to receive the new loans they required for their economic and social development on concessional terms and reasonable interest rates, and the General Assembly should appeal to all States to remove protectionist and discriminatory measures and to apply the GATT provisions concerning most-favoured-nation treatment. In addition, IMF and IBRD should review their policies and practices so as to contribute actively to the establishment of a new, equitable and democratic financial and monetary system that would be supportive of development efforts.

15. Mr. MWANZIA (Kenya) said that debts had become a global problem, both economically and politically, which could not be solved in an isolated manner, and particularly not at the cost of halting the development of the debtor countries. At the end of 1986, debts had reached an alarming amount of over $1,000 billion, exceeding the gross national product of the developing countries by 40 per cent. What was especially alarming was that the debt was constantly increasing, despite regular servicing by debtor countries. In the 1980-1986 period, the total debt of developing countries had almost doubled, from about $650 billion to over $1,000 billion, and the debtor countries had paid more than $600 billion to their creditors.

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(Mr. Mwanzia, Kenya)

16. It was worth recalling that a year ago, when the Committee first considered the question of the external debt crisis and development, some delegates had shown a certain degree of scepticism as to the competence of the General Assembly or its Main Committees to handle it. Currently, the pressure and magnitude of the debt problem had caused both the developed and the developing countries to adopt new approaches in seeking a solution. There had been a notable change in the attitudes of some Governments and banks which held promise for a major attenuation of the burden of debt service. Governments of both creditor and debtor countries agreed in principle to share responsibility for finding joint solutions. General Assembly resolution 41/202 represented a major step in that direction, as did the consensus adoption of the Final Act of UNCTAD VII, which had recommended a number of policy approaches and measures to deal with debt problems.

17. The debt crisis had continued to intensify in the Latin American countries and most African countries, thus demonstrating that the strategies so far adopted had not worked. Although the indebted developing countries were in dire need of resources to back up their adjustment efforts, there had been a net outflow of capital from those countries to some donor countries and multilateral financial institutions. The net negative financial transfer and the deterioration of the terms of trade, according to conservative figures, had amounted respectively to over $20 million and over $90 billion in 1986 alone. That, together with the declining financial flows from other sources, had had a serious negative impact on development and capital accumulation, preventing growth-oriented adjustment and self-sustaining development. There was a need for the creditor countries to create a conducive international environment to encourage growth and self-sustaining development in developing countries. That process should take into account not only the stabilization and structural reforms by the developing countries to mobilize and retain domestic savings, but also their capacity to repay, as well as their development requirements and priorities. It should also ensure adequate financing on appropriate terms to support those reforms.

18. There was an emerging consensus that there was a need to initiate special measures to alleviate the debt burden of the countries of sub-Saharan Africa, whose efforts to revive economic growth and raise living standards were being suffocated. Not only the magnitude but also the rate of increase and debt-service burden could cripple the economies of most African countries, which would also have an impact on the economies of the developed countries. Conservative estimates by the Economic Commission for Africa showed that the total external debt of Africa by the end of 1986 was $200 billion, or 44 per cent of its gross domestic product. Debt-service obligations represented almost 200 per cent of its export earnings. With debt-service payments taking up about 38 per cent of Africa's earnings from exports of goods and services, the implementation of national priority programmes had been jeopardized.

19. The debt-relief measures adopted so far by some creditor countries were not adequate. Rescheduling of official debts in the Paris Club had not reduced the burden, since interest rates and commitment fees continued to be very high. The debt-service obligations to the International Monetary Fund (IMF) itself were a

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(Mr. Mwanzia, Kenya)

serious burden on African countries, since the IMF did not normally reschedule payment obligations. Besides, failure to meet those obligations would result in immediate suspension of disbursements, and the countries involved would become automatically disqualified from seeking debt rescheduling. There was an urgent need for concrete action on the stringent conditions imposed by some creditor countries, including those of the IMF.

20. His delegation invited many more creditor countries to emulate the action taken by some Nordic countries and other Western developed countries, which had cancelled official bilateral debts owed to them by the developing countries or had announced their intention to do so. Any debt cancellation, however, should not be linked to the implementation of IMF- or World Bank-supported adjustment programmes, which were accompanied by restrictive conditions and were directed at achieving short-term balance-of-payments equilibrium.

21. The Assembly of Heads of State and Government of the Organization of African Unity had decided to convene a special session, to be held in December 1987, to adopt a common African position on Africa's external indebtedness. The General Assembly, at its current session, would consider the proposal for the convening of an international conference on Africa's external indebtedness.

22. Kenya invited the entire international community, especially the creditor countries and the international financial institutions, as well as private banks, to deal with the problems of Africa's official and officially guaranteed debts, commercial loans, World Bank loans and IMF credits. Kenya also invited the multilateral financial institutions, in particular the IMF, to increase resource flows to African countries under concessional terms and to consider restructuring their financial obligations. Kenya noted with appreciation the recent IMF proposal to triple the Structural Adjustment Facility to $9 billion, although that amount could not meet Africa's resource flow requirements for launching and encouraging economic growth and self-sustaining development.

23. Mr. ARSEENKO (Ukrainian Soviet Socialist Republic) said that multilateral and bilateral consultations, intergovernmental talks and high-level meetings on solving the debt crisis had helped somewhat to diagnose the causes and effects of the chronic difficulties affecting the credit system. The international community had become aware of the need to take immediate steps to alleviate the debt burden of the African, Asian and Latin American States. However, the remedies prescribed for those countries to cure the old illnesses of the world economy had not worked. The combined external debt of the developing countries had reached over $1,000 billion and had become world-wide and long-term, thereby representing one of the main problems of the world economy, as confirmed by the report contained in document A/42/523 and many statements at the present General Assembly session. As noted in that document, neither official development assistance nor the expansion of private loans to third world countries had been able to meet the investment needs of the developing countries. At the same time, they had come to owe $300 billion to official creditors and $700 billion to private creditors.

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(Mr. Arseenko, Ukrainian SSR)

24. The transnational banks, which during the period of credit euphoria had hurriedly pursued their industrial customers in Africa, Asia and Latin America, were currently squeezing thousands of millions of dollars out of the developing countries in interest alone, and were in a similar hurry to stop lending money to the debtor countries.

25. Since many debtor countries could not pay what they owed, and the creditor countries could not collect it, even by reprisals, it was evident that the external debt crisis had become a serious political problem whose solution called for immediate action by the international community. The world economy had indeed become a hostage to the debt crisis. A significant alleviation of the developing countries' debt burden could improve the health of the international monetary-financial and credit machinery and improve the economic situation, thereby benefiting all participants in the international division of labour, including the developing countries. If those who took part in the Second Committee's discussions did not co-operate constructively in seeking agreed, collective solutions to the external debt crisis, the world community would continue to be captive to palliative measures which, at best, could only attenuate the seriousness of the crisis and postpone payments. The developing countries would still be forced to curtail their budgetary expenditures (including social expenditures), their long-term programmes for modernizing their economies and their expansion possibilities. That would undoubtedly have an impact on the developed countries and entail a further deterioration in the international economic climate.

26. Finding a solution to the criticial debt situation was undoubtedly like solving a problem with many unknowns. There was therefore a need to determine exactly what causal relationship had led the developing world into the slavery of a debt which was currently absorbing nearly one fifth of the developing countries' savings and one third of their export earnings.

27. He was convinced it was the direct result of the dizzying rise in interest payments on bank loans, the limited export opportunities for developing countries, the lack of concessions for the least developed countries, the accretion of still more interest as debts were rescheduled and refinanced, reluctance to accept export goods from debtor countries as payment, and the erection of protectionist barriers against imports from developing countries to the lending countries.

28. The proposals by the socialist countries for immediate action to lighten the debt burden of the developing world were presented in a document from the meeting of the Political Consultative Committee of States parties to the Warsaw Treaty, entitled "On the Elimination of Underdevelopment and the Establishment of a New International Economic Order" (A/42/354). They called for a net flow of financial resources into the developing countries to be restored and for international lending to be cleansed as far as possible of the abuses of private banks. Giving effect to those proposals and to the principle of "disarmament for development" would signify a firm step in the right direction, moving towards a radical solution of the developing countries' external debt problem and the strengthening of international economic security.

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(Mr. Arseenko, Ukrainian SSR)

29. The socialist countries were also willing to give constructive consideration to other proposals and ideas for producing a humane, democratic solution to the debt crisis, ruling out the possibility of encroachments on national sovereignty or countries' freedom to choose the path of their development and barring the plundering of developing States' natural resources. They supported the provisions to that effect in the statement issued by the Ministerial meeting of the Group of 77 on 1 October 1987, and the idea of convening, under United Nations auspices, an international conference to deal with foreign debt, which might mark an important stage in the reconstruction of the international monetary and financial system with due regard for the interests of all States. Such a conference, attended by all interested parties, would help to normalize relations in the monetary sphere. Thus the world community would draw closer to the attainment of a comprehensive system of security and a future in which the security of all would safeguard the security of each.

30. Mr. BROWNE (Fiji) said that the external debt crisis had worsened in the past five years and might lead to world chaos. General Assembly resolution 41/202, the Final Act of the seventh session of UNCTAD and the recent decisions by IMF and the World Bank should not be allowed to become just more good intentions.

31. The developing countries had clearly demonstrated their determination to meet their obligations in the shared responsibility for tackling the debt problem.

32. precarious state of the world economy was due to the failure to correct the imbalance between the economies of the developed and developing worlds. In fact, that imbalance had increased considerably over the past two decades. Perhaps the most important factor precipitating the developing countries' external debt crisis had been the unexpected rise in oil prices. That had been exacerbated by shrinking markets for their primary commodities because of greater protectionism in the developed markets. Economic recovery in Africa and all other developing countries could be stimulated only by the influx of more external resources.

33. The old refrain, "we want trade, not aid," seemed to be welling up again. Action needed to take the place of rhetoric. The announced intention of the Prime Minister of Japan to recycle $20,000 billion of Japan's surplus over the next three years was an important step to help rescue the world economy and assist the developing countries. According to a recent report by the World Institute for Development Economic Research at the United Nations University, recycling the surplus was a more rational application for Japan's excess savings than using them to boost domestic consumption. In addition, recycling the surplus to the developing countries would help to reduce the trade deficits of the leading industrialized countries. Japan's initiative would show whether the new concept was an effective means of rallying the feeble world economy.

34. It was also necessary to reverse the trend in net transfers of foreign capital investment over the past five years. While such investment was eagerly awaited in many third world countries, most at the moment went to the United States. A flow of foreign capital investment into the developing countries would greatly facilitate their development and help to revive the world economy.

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(Mr. Browne, Fiji)

35. The problems of the small island developing countries tended to get lost among the myriad problems of the larger countries. They were important to the island countries, nevertheless. He therefore pleaded for due attention to be paid during the discussion of the international external debt crisis and development, to the problems facing the small island countries, too.

36. Mrs. de WHIST (Ecuador) said that the interdependence of all countries, which had begun with Christopher Columbus's expedition and his encounter with the American continent and was reaching its zenith thanks to international communications, was an undeniable fact with positive and negative effects.

37. It became clearer with every passing day, even to the most recalcitrant bankers and economists, that the debt problem involved more than just the failure of the debtors to pay and that, precisely because of the interdependence she had mentioned, the failure to pay imperilled the financial systems of the creditor countries as well.

38. The hasty and fragmentary steps and solutions dictated by the lenders had proved to be unfair and inappropriate, destabilizing and destructive because they had imposed on the developing countries an austerity that was paralysing their economic growth, damaging their social development and steadily growing into a domestic political threat with world-wide repercussions.

39. The solution to the debt problem was not to save the international banking system and ensure that the debtor countries met their next round of payments at any price or sacrifice by their peoples, because the roots went much deeper; it would require negotiations linking the revival of development, and the resumption of the kind of sustained growth experienced in the early 1970s, with realistic payment arrangements - failing which, the industrial countries would find themselves affected economically and politically.

40. Her delegation repeated the view it had maintained during the seventh session of UNCTAD, namely that the economic circumstances of every country must be borne in mind, as must the specific characteristics of its political and social development and, in many cases, unforeseen factors such as those resulting from natural disasters which would affect any development strategy or plan. It was inconceivable that the entire burden of political, economic and social development problems weighing down on more than two thirds of mankind should be subordinated to the cold, almost abstract adding-up of profits by the international banking system.

41. Her country regarded the persistent net transfer of financial resources, which was closely linked to the problem of external debt and reflected the current maladjustment of the world economic structure, with deep concern (A/42/272).

42. In the case of Latin America, the report of ECLAC (E/1987/55) referred to the declining political and social stability of the region, which could not be left to stagnate indefinitely.

(<u>Mrs. de Whist, Ecuador</u>)

43. Her country considered it was vital to draw up an international strategy for tackling trade, finance and external debt questions together through updated studies on the economic and social repercussions of debt and the economic policies followed by the industrialized countries and international financial institutions, with special reference to interest-rate fluctuations, the market value of the debt and terms for its possible conversion into capital, and machinery for correcting the reverse transfer of resources to the industrialized countries.

44. Her delegation would support the convening of an international conference on monetary and financial issues to consider the relationship between external debt and the development process, and trusted that the resolutions on item 85 adopted in the Second Committee would influence action by Governments and international financial institutions to the benefit of all mankind.

45. <u>Mr. TRAORE</u> (Burkina Faso) said that - despite the fact that since the establishment of the United Nations 42 years earlier mankind had been endeavouring to promote development, together with international peace and security - underdevelopment not only continued to exist but was growing more pronounced day by day.

46. Of all the factors responsible for that deterioration, the chief one was the problem of external debt and debt-service, whose level was currently double that of the capital-importing developing countries' export earnings. In the general debate, few delegations had not referred to the problem as the most disquieting social, economic and political issue of the late twentieth century.

47. At the forty-first session of the General Assembly - the first session in whose agenda the external-debt issue had been included - almost all the debtor countries had indicated that the solutions that had been tried so far, such as rescheduling and structural-adjustment policies, had simply exacerbated the situation, as confirmed by the Secretary-General's report (A/42/523). The new proposals, such as debt/equity swaps, were not applicable in the many countries that had a very fragile industrial fabric and were very uncompetitive.

48. All of the foregoing demonstrated that in the current situation - in which the financing of development had become problematic, if not impossible, and a net transfer of capital from the developing debtor countries to the creditor developed countries was taking place - the close link between the debt issue and the development requirements of the peoples of the world had [illegible] been considered, and any new proposal that did not take account of the debtor countries' struggle for survival was doomed to failure.

49. It did not seem reasonable to continue to require States to repay their debts, since they were unable to do so owing to the current international economic situation. Moreover, it did not seem possible to continue to require States that had only one hospital bed per 25,000 inhabitants and only one doctor per 50,000 inhabitants and that were engaged in a pitiless struggle to control drought and desertification to repay a debt that would put an end to all hope of development.

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(Mr. Traore, Burkina Faso)

50. The unilateral measures adopted in that connection by a number of developing countries did not represent a refusal on the part of those countries to meet their commitments but were, rather, attributable to development requirements. They were the outcome of an international economic order that reflected the ascendancy of one group of States, the developed countries, over another group, the developing countries. As long as the international development process left certain States behind and aside, as long as the solutions to the external-debt problem were confined to unilateral prescriptions and as long as the international economic order remained unchanged, the debtor developing countries' stance would continue to become more radical. The existing international financial machinery was now inadequate, but political will was required in order to change it. An adjustment of the machinery in question to take account of development requirements would be a demonstration of support for the Charter of the United Nations.

51. It was to be hoped that recognition of the fact that the debt problem was in fact a technical, if not economic and, in the final analysis, political problem would lead to appropriate solutions that would ultimately restore the confidence of the industrialized and developing countries in each other.

52. Mr. KORN (United States of America) said that his delegation continued to believe that the technical and financial expertise of the International Monetary Fund and the World Bank gave those institutions responsibility for addressing debt problems. However, the General Assembly could also play a positive role by endorsing the basic elements of the strategy that had evolved over the past few years.

53. Debt problems could not be solved overnight, and a long-term solution would require co-operation based on a mutually acceptable framework of action. The Program for Sustained Growth proposed by Treasury Secretary Baker at Seoul remained the only viable approach, and even although it had evolved over the past two years its basic principles remained just as important today. The first principle was the central importance of growth for generating the resources needed in order to service debt obligations without undermining the debtors' development and living standards. The second principle was that market-oriented reforms and structural adjustments in debtor nations were a critical factor in promoting economic growth. The third principle was that additional capital was required in order to support such reforms, in the form of both new lending and equity investments and through the repatriation of capital placed abroad. Lastly, each case should be dealt with on its own merits.

54. As Mr. Baker had stressed at the annual meetings of the International Monetary Fund and the World Bank, considerable progress had already been made: adjustment measures in the major debtor nations had produced an economic-growth rate of 3.7 per cent in the 1986-1987 period, and even greater growth was predicted for 1988; the annual growth rate of developing-country debt had been reduced to 1 unmanageable levels, since - after subtracting the effects of currency fluctuations - the International Monetary Fund estimated that the underlying growth rate of outstanding debt would be only 4.5 per cent in 1987 and would drop to

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(Mr. Korn, United States)

2.8 per cent in 1988, well below projected economic-growth rates for that year; and lower interest rates had reduced annual debt-servicing burdens, with interest-to-export ratios falling from 31 per cent in 1981 to 27 per cent in 1987. Export earnings were expected to recover strongly in 1987 and 1988, and imports were also rising - in some cases supported by import-liberalization programmes; the combined impact of expanded exports and slower growth in debt would reduce the debt-to-export ratio for capital-importing countries from 187 per cent in 1986 to 177 per cent in 1987 and 166 per cent in 1988 - figures that indicated a positive trend, even though they were high; and the international financial system was also on a more stable footing, since commercial banks had increased capital in relation to loans.

55. Those indicators gave testimony to the success already achieved, but problems remained. Nevertheless, in the middle of an endeavour to restore credit-worthiness and growth prospects for debtor nations, the international community must not be distracted or discouraged. It had a plan, which was working, and co-operation was being strengthened.

56. Many debtor countries had adopted important macro-economic and structural reforms: Colombia's substantial reforms in its trade, agricultural and foreign-exchange policies had resulted in a competitive economy and an economic-growth rate of 5 per cent the previous year; Mexico's trade liberalization, tax reform and privatization measures had helped to restore confidence and encouraged the return of flight capital; Chile's open investment climate, liberal debt/equity swap programme, positive real interest rates and sharp reduction in the public-sector deficit had attracted new foreign investors and eliminated 17 per cent of the country's foreign debt; in the Philippines, as a result of a comprehensive tax-reform programme, improved resource allocation, liberalization of imports and reductions in the size of the Administration, negative growth of 4 per cent in 1985 had been turned around, with an expected growth rate of 4.5 per cent in 1987.

57. In all the cases in question external support had been a key element, particularly support from IMF and the World Bank, which had provided both sound policy advice and over $16 billion in new loan commitments to major debtor countries since October 1985. IMF and the World Bank had also served as the catalyst for additional financing from other external sources. Commercial banks had committed nearly $10 billion in new loans, rescheduled $110 billion in outstanding debt and extended repayment terms. Creditor Governments had also provided debt relief through Paris Club operations that had rescheduled $17 billion in principal and interest on outstanding loans.

58. With a view to strengthening the debt strategy, the United States had proposed the following three additional measures: support for immediate negotiations on a World Bank General Capital Increase; establishment of a new IMF external contingency facility to cushion the adverse effects of unforeseen developments; and further development of the "menu" approach for packaging commercial-bank financial arrangements. The types of "menu" items that should be considered included: loans

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(Mr. Korn, United States)

that channelled more funds to the private sector; on-lending provisions that helped to provide funds for the private sector; new bonds with some of the characteristics of a senior claim that might be more attractive to banks and would reduce the stock of debt; bonds that were convertible into local equity in order to boost domestic production; exit bonds that would reduce the vulnerability of banks and help to streamline financing procedures; debt/equity swaps that reduced both debt and debt-service; conversion of debt paper into local currency for use by charitable organizations; limited voluntary interest capitalization, which might be particularly useful for small debtors; and general balance-of-payments loans.

59. Attention was being paid by the World Bank and the International Monetary Fund to the lowest-income countries, particularly those of sub-Saharan Africa, for which the Managing Director of the Fund had proposed expansion of the structural adjustment facility. The Governments of the major creditor countries had reiterated in Venice their willingness to reschedule, on a case-by-case basis, the outstanding debt of the most needy low-income countries.

60. Mr. PILBEAM (Australia) said that Australia had pioneered development assistance in grant terms and thus had never been substantially involved as an official creditor. However, it was a major borrower on world capital markets and its exports were affected by the crisis. It was therefore vitally concerned about the debt problem of many countries with which it had important relations

61. As his country's Minister for Foreign Affairs and Trade had stated in the General Assembly, the issues of debt, trade and the general state of the world economy were closely connected. The debt strategy had produced some important gains: significant adjustment in many debtor countries, a reduction of capital flight, a strengthening of banks' balance sheets and the benefits to debtors resulting from rescheduling and lower debt service levels. However, a longer-term solution would depend on a sustained and widespread global economic recovery, which would generate the export opportunities necessary for developing countries to service their debt, accompanied by a reduction in real interest rates, better market access for the exports of the debtor countries and continued adjustment of the debtor economies so as to increase their competitiveness in world trade.

62. None of those conditions seemed assured. Rather, there was a global paralysis of economic policy-making in the major industrialized countries. Low growth, budget deficits and protectionism in those countries continued to work against the efforts of debtor developing countries, as had become apparent over the past two years with the significant worsening of debt service/export ratios deriving primarily from low commodity prices. In a few cases, debt-service payments accounted for over 50 per cent of export receipts. Thus, Argentina's annual debt service was the equivalent of its annual export revenue.

63. For Argentina and some other countries, the crisis in agricultural trade was proving a serious constraint on debt-servicing prospects. In 4 of the 15 heavily indebted countries referred to in the Secretary-General's report, agricultural commodities accounted for over 70 per cent of exports, and in five others for

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(Mr. Pilbeam, Australia)

between 30 and 70 per cent. There was a contradiction between the agricultural policies pursued by some industrialized countries and the debt strategy, which emphasized structural adjustment with growth. Accordingly, it was essential to have a general liberalization of agricultural trade.

64. Each side had its responsibility in the matter. Debtors should not undermine the financial system by walking away from their obligations, while creditors should not carry debt repayment to the point where human and other resources of the debtor countries were destroyed. The consensus achieved on the item at the preceding session and that obtained at the seventh session of UNCTAD gave ground for optimism that the current proceedings of the Second Committee would yield similar results.

65. Mr. DAZA (Chile) stated that the external indebtedness of the developing countries appeared to have deteriorated because of recent world economic developments. However, there seemed to be a better understanding of the nature, scope and consequences of the problem, which might eventually help in devising an acceptable and lasting solution.

66. Initially, external indebtedness had been looked upon as a problem of liquidity which debtors could solve by implementing an adjustment programme and obtaining new resources. That approach had proved ineffective because it had not foreseen the paralysing effect of the sharp economic adjustment required to fulfil commitments taken on during a world economic recession and the unexpected shrinking of international financial markets. From being net importers of resources, the heavily indebted developing countries had become net exporters, in some cases exporting the equivalent of up to [illegible] per cent of their gross domestic product.

67. A change of direction had been delayed owing to the creditors' refusal to accept any responsibility for management of the crisis. The change of direction had eventually come about in the form of the "Baker Plan", which had not achieved its objective because there had not been sustained growth of the world economy and it had proved impossible to provide a flow of $29 billion over three years to the developing countries ($20 billion from the private banking sector and $9 billion from multilateral credit institutions).

68. It had been with considerable reluctance that the international banking sector had recognized that the best way of protecting its operations in the debtor countries was to grant new financing through certain special measures and innovative features, instead of insisting on the traditional mechanisms. One of the new features proposed was the conversion to equity of external debt, which was helping to lighten debt and encouraging the return of national capital invested abroad.

69. Chile had already converted to equity 17 per cent of its external debt through use of the new feature, thereby enabling it to reduce its debt by $2 [illegible]llion and attract new technology and new foreign investment without recourse to international reserves. To date, the indebted countries had made an enormous adjustment effort, whose only result had been paying in order to maintain the right to continue

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(Mr. Daza, Chile)

paying. Chile had set in motion a development programme to fulfil its financial obligations and achieve a sustained expansion of production and employment in future years through an appropriate combination of internal effort and external contribution. That strategy was threatened by external factors alone, such as the sharp decline of commodity prices, growing protectionism and drastically limited access to international financial markets.

70. The Governments of the creditor countries maintained that it was difficult to impose specific conduct on banks because of the latter's private character, whereas banks justified their action with allusions to the regulatory provisions of the Governments. The constructive spirit which developing countries were asked to display should be invoked in order to introduce the necessary flexibility in order to resolve that dilemma. Among the political measures of the industrialized countries which were having a negative influence on the debt situation was the high level of interest rates, to which the United States fiscal deficit and monetary policy were contributing.

71. His delegation fully agreed with the Secretary-General that the following elements were necessary in order to overcome the debt crisis: improved domestic policies; an international environment conducive to debt servicing; and increased net financial flows. The first of those elements depended on the debtor countries themselves. He hoped that the creditor countries, in accordance with the principle of shared responsibility, would guarantee the other two elements, without which there would be no solution to the debt crisis.

72. Mr. Shaaban (Egypt) took the Chair.

73. Mr. DJOGHLAF (Algeria) drew attention to the importance of General Assembly resolution 41/202, which reaffirmed the Assembly's competence in the search for solutions to the external debt problems of developing countries and recognized the seriousness and highly political nature of the debt crisis. The problem was indeed political, not only because of its detrimental effect on the internal stability of countries and international peace and security, but also because it was rooted in an unjust and irrational system of international relations.

74. In spite of the developing countries' effort and sacrifices, the opportunities for solving the problem continued to be remote, since the current international debt strategy, based on a short-term view, involved the renunciation of productive investment, growth and global development prospects, thereby reducing the developing countries' current and future capacity to fulfil their international financial commitments.

75. In addition, the rigidity and uniformity with which that strategy had been applied had had alarming consequences for the economies of the less advanced countries, the majority of which were in Africa. The Secretary-General had therefore established an advisory group on financial flows to Africa and the Heads of State or Government of African countries had decided to convene, towards the end of the current year, a special summit conference devoted solely to the debt of African countries.

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(Mr. Djoghlaf, Algeria)

76. The highly political nature of the crisis urgently required an international dialogue based on the shared responsibility of all parties concerned with a view to applying a universal strategy for the revival of growth and development.

77. Mr. EL-AMIN (Sudan) said that the debt crisis had aggravated the payments and trade imbalance between rich and poor countries and caused a reverse transfer of resources from developing to developed countries. Debtor countries found themselves unable to honour their debt service, and were witnessing a steady decline in their economic and social situation. Particularly hard hit by the problem was the African continent, ravaged in addition by natural disaster, drought and desertification. For that reason, the inclusion of the item on "External debt crisis and development" in the General Assembly's agenda was encouraging.

78. Sudan, which was still struggling to revive its economy and establish a truly democratic political, economic and social régime, deeply appreciated all international assistance, such as that provided by IMF and the World Bank. Sudan hoped to be able to fulfil its financial obligations, even though, under the current circumstances, it could not service its debt without detriment to the development process. It therefore welcomed the initiative by some creditor countries of cancelling all or part of the debt of some developing countries, and was grateful for the aid offered by countries in a spirit of friendliness and brotherhood. None the less, the search for lasting solutions to the crisis must continue.

79. Mr. RAKOTONAIVA (Madagascar) said that the developing countries' external debt was one of the most important economic issues of the times, for it hindered the development process of the third world countries. A consensus had been reached on the main elements of a viable solution. In that connection, the specific recommendations of the seventh session of UNCTAD were encouraging and the debt situation was already showing signs of stabilizing.

80. Within the general framework of the negotiations, there was agreement that solutions must continue to be sought through an ongoing dialogue with the participation of all parties concerned. Experience had taught that case-by-case consideration was a piecemeal approach; even in the large Latin American countries, negotiations had not produced the expected results.

81. Shared responsibility for the mounting debt placed an obligation of direct co-ordination - with no intermediaries - between debtors in the "indebted club" on the one hand, and creditors, on the other, as Madagascar's Minister for Foreign Affairs had recently declared. That would require strengthened international co-operation, as indicated in General Assembly resolution 41/202. The international community would have to lend its political support to the process without minimizing the role or the powers of the competent international institutions.

82. According to the Secretary-General's report, 1986 had been marked by the proliferation of new rescheduling initiatives, such as partial reduction of

(Mr. Rakotonaiva, Madagascar)

principal, interest capitalization, debt-equity swaps, debt conversion and the recycling of trade surpluses. However, such innovations were but a small contribution to resolving a problem as staggering as the overall debt of developing countries. Those innovations also discriminated against debtor countries which had not yet regained access to financing on market terms. On the other hand, France, the United Kingdom, Canada and some Scandinavian countries had recently taken welcome debt-relief initiatives with respect to the least developed and low-income countries in Africa.

83. Three elements were central to the problem of rescheduling: a change in the rules of the Paris Club and London Club; a 10-year moratorium on interest; and the fixing, on a multi-year basis, of the percentage of export earnings that would be applied to debt servicing.

84. Referring to structural adjustment, he said that Madagascar welcomed the international community's increased attention to the concept of growth-oriented adjustment. By contrast, there was a tendency to dissociate new flows and new loans from the process of revitalizing the productive sector of beneficiary countries. Banks were currently granting new loans to enable their debtors to pay interest, Governments were generally forced to obtain loans in the markets to finance the deficits incurred by their obligations, the Paris Club was rescheduling interest payments and the industrialized nations were issuing new credits to finance exports in order to maintain their output capacity. Such financial practices were essential in the short term, but in the long term they only served to compound the debt.

85. Madagascar was convinced that granting new credits and reviving both bilateral and multilateral financial flows to developing countries remained the essential conditions for the effective restimulation of developing countries' economies. Such measures should not be considered as compensation for the bold adjustment efforts undertaken by the Governments of those countries. They must be accompanied by recovery of the global economic environment, dismantlement of restrictive and protectionist trade measures and higher, more stable commodity prices.

86. In spite of attempts at co-ordination, macro-economic policies and multilateral surveillance by industrialized countries, reform of the international commercial, financial and monetary system was the basis for long-term recovery and sustained growth.

87. Africa's external debt must be reviewed in terms of that continent's capacity to repay, which was dwindling by the moment because of the steadily declining prices of its principal export products and because of external financial and monetary restrictions.

88. The external resource requirements for the implementation of the United Nations Programme of Action for Economic Recovery and Development 1986-1990, amounted to $9.1 billion a year. An average of $14.6 billion was needed annually to service the continent's debt. Only $13 billion in official development

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(Mr. Rakotonaiva, Madagascar)

assistance has been received in 1986. Africa had been promised special treatment in various international forums, but the task of recovery could ill afford delays, nor could it be confined to the adoption of partial, expedient measures. The African countries had lived up to their promise by applying structural adjustment measures and economic policy reforms; more and more domestic resources were being mobilized. They were now awaiting with interest the response of the international community.

89. The African countries had called for an international conference to review practical proposals for resolving the African debt problem. That conference could deal, inter alia, with a change in the rescheduling rules, retroactive adjustment of terms and financing the public debt on easier terms.

90. Mr. ISLAM (Bangladesh) said that for the developing countries, the past years had been characterized by the most severe setback to their development process in recent times. It had been accompanied by an unprecedented crisis in the international life. Real interest rates had remained extraordinarily steep and commodity prices remained depressed. Unabated protectionism had adversely affected their trade with developed countries. The decline in their rates of growth had eroded the prospects and vitality of their mutual trade.

91. As emphasized in the Secretary-General's report, the size of developing countries' external debt had continued to increase, climbing to $1.2 billion. That represented almost twice the export earnings of capital-importing developing countries. Debt-service payments had come to account for one quarter of their export earnings and interest payments, over 12 per cent.

92. With the decline in financing, the growth in the size of the debt had perhaps slowed down in recent years. However, at the same time, the debt-servicing capacity of developing countries had dropped.

93. The current debt strategy sought to increase the debt-servicing capacity of developing countries and to increase their exports through the growth in world output and trade. Under the strategy, those countries were also being urged to undertake adjustment measures. Lastly, an increase in net financial flows to debtor countries was being sought. However, persistent increases in the debt burden of the developing countries eloquently testified to the inadequacy of the strategy.

94. World output and trade had failed to register significant growth. In particular, the deceleration of growth in the developed countries and the accompanying rise of new protectionism had drastically reduced the developing countries' export market.

95. In the case of financial flows, official flows had slowed down and in some cases contracted. For many developing countries, official development aid levels remained well below the international target level: in the case of the least developed countries, for example, it represented more than 90 per cent of the total

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(Mr. Islam, Bangladesh)

debt. Despite the targeted level of 0.15 per cent as provided in the Substantial New Programme of Action, official development aid receipts for those countries had remained stagnant and well below target in recent years. Moreover, the quality of ODA flows to developing countries had deteriorated owing to severer conditions and to a growing tendency to use such flows for commercial purposes. Direct foreign investment and officially supported export credits had also declined but, on the contrary, adverse developments on the external economic front had led to negative net transfer of financial resources. For the first time since the colonial period, developing countries as a whole had once again become suppliers of resources to developed industrial countries, but, more serious, the swing from a positive to a negative net transfer had been sudden and unprecedentedly large. For many developing countries it had happened when their export earnings were stagnant or growing slowly and their domestic economies performing in a weak manner.

96. The adjustment measures that the developing countries had had to undertake had in many cases had serious consequences: they had reached, and at times exceeded, the limits of social tolerance and had led to tensions and unrest. Expenditure in the social sectors, particularly on health, sanitation, education, social welfare and public works, had been the worst victim of adjustment policies.

97. The current inadequate debt strategy must give way to an effective, credible and stable development-oriented strategy aimed at a lasting solution of the developing countries' debt problem on a global basis. The strategy should include, among others, the following measures: improved rescheduling, taking into account the developing countries' export earnings; adjustment of debt service to real payment capacity; ensuring that concessions on old debts did not result in the suspension of new financial flows; differentiating existing debt from new credit flows for the purpose of determining interest rates; immediate and full implementation of the recommendations of the Substantial New Programme of Action; unconditional provision by multilateral development lending institutions of debt relief measures for the least developed countries; parallel action for a growth-oriented solution of the debt problem of the heavily indebted developing countries; substantially easing the conditionality criteria of the international financial institutions; a general increase in World Bank capital; a reversal of the decline in IDA resources; and redoubled efforts by developed countries to achieve the internationally agreed ODA targets as quickly as possible.

98. Mr. ELGHOUAYEL (Tunisia) recalled that the Extraordinary Session of the Assembly of Heads of State and Government of the Organization of African Unity to be held in December would be devoted entirely to the debt problem. The summit meeting of heads of state of the eight debtor countries of Latin America would be taking place almost at the same time. It would therefore seem that the Committee should prepare a new draft agreement on the question based on General Assembly resolution 41/202 and the consensus reflected in the Final Act of the Seventh Session of UNCTAD.

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(Mr. Elghouayel, Tunisia)

99. One of the relevant basic documents was the preliminary assessment carried out by the OAU Standing Steering Committee and approved in New York on 25 September 1987, in which Africa's external debt was estimated at approximately $US 200 billion - 70 per cent in respect of African countries not classified as least developed and about 50 per cent in respect of countries in the sub-region of the north. That situation of the African countries had still not been deemed worthy of adequate attention by the competent United Nations bodies.

100. There had recently been positive developments with respect to some aspects of the debt situation. However, as indicated in the Secretary-General's report (A/42/523), a global long-term response had yet to be formulated.

101. Tunisia had been faithful to its international financial commitments and had spared no sacrifice to meet them. Nevertheless, his delegation wished to comment briefly on the origin of the current critical situation.

102. The debt crisis stemmed from a time when world economic growth, the growing share of the developing countries in international trade and financial flows and the creation and diversification of productive capacity had generated an unprecedented dynamic force. In that period of euphoria and vast profits, the international community had joined in singing the praises of the growing independence of the world economy.

103. His delegation considered that if it was thought normal to share equally in the process in favourable times when profits abounded, it should be even more so in the present time of recession: partial, isolated and unilateral action was always counterproductive.

104. It was already clearly recognized that the solution of the debt crisis called for a genuine reactivation of development and world growth, especially in the developing countries. That consensus arose from a recognition that the debt crisis reflected the malfunctioning of the world economic system. The close interaction between the problems of money, finance, world trade, commodities and development was being evidenced in increasingly negative form, aggravated by the extensive political and social pressure caused by the situation.

105. The immediate remedies that should be applied were: harmonization of the developed countries' macroeconomic policies in order to ensure the monetary and financial stability of the system; increased international liquidity, including official development aid, in order to help to halt and reverse the net transfer of resources from developing to developed countries - the trebling of the assets of the IMF Structural Adjustment Service was positive but insufficient; reduction of interest rates; elimination of trade barriers and protectionist measures, in accordance with the commitments assumed in the framework of GATT and reaffirmed at Punta del Este.

106. Concerted action by donor countries, commercial banks and the World Bank would help to speed up studies, negotiations and implementation of aid programes and give

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(Mr. Elghouayel, Tunisia)

better guarantees to the providers of funds, especially the commercial banks. All financial institutions should set a limit on the amount of debt, interest rates and repayment periods, so that debt servicing for the receiving countries would not exceed 20 per cent of their annual export earnings.

107. Those measures should be applied automatically to the countries which, although they had met their commitments under the adjustment plans, had experienced difficulties. They should also be applied to countries which had already agreed to apply adequate recovery policies which included the sacrifices needed to reactivate the economy and obtain foreign support.

108. Lastly, he considered that the debt crisis, the problems of development and the difficulty of restoring the world economy were interdependent. Efforts to find a solution, both by the General Assembly and by the multilateral financial institutions, should also be interdependent. A group of eminent experts could be set up under United Nations auspices to draw up and propose a strategy for resolving the debt problem with a view to the growth and progress of those developing countries.

The meeting rose at 6 p.m.