United Nations A/C.2/53/SR.10

General Assembly
Fifty-third session

Official Records

Distr.: General
12 February 1999
English
Original: Spanish

Second Committee

Summary record of the 10th meeting
Held at Headquarters, New York, on Monday, 12 October 1998, at 3 p.m.

Chairman: Mr. Agona (Vice-Chairman) .... (Uganda)

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98-81573 (E)

In the absence of Mr. Asadi (Islamic Republic of Iran), Mr. Agona (Uganda), Vice-Chairman, took the Chair

The meeting was called to order at 3 p.m.

Agenda item 91: Macroeconomic policy questions (*continued*) (A/53/60, A/53/62, A/53/69 and A/53/185)

(b) Financing of development, including net transfer of resources between developing and developed countries (A/53/228 and A/53/398)

(d) External debt crisis and development (A/53/373, A/53/72–S/1998/156 and A/53/95–S/1998/311)

1. **Mr. Öztürk** (Turkey) said that there was a need to limit the volatility of international financial flows, while assuring the efficient functioning of the system. Despite the current difficulties, the international community must continue to seek ways and means of improving bilateral and multilateral assistance in order to attain global development goals.

2. All the potential sources of development financing must be considered, in particular foreign direct investment and innovative sources. One of those sources could be the build-operate-transfer model, for projects that required advanced technology and high capital investment. Turkey was currently financing power plants, seaports and airports, highways, railways and telecommunications systems in that manner. Recently an agreement had been concluded under that model for the construction of four natural gas power plants which, once completed, would provide 20 per cent of Turkey's annual energy production.

3. Another important source of financing for development was foreign direct investment, in respect of which there was a need for increased harmonization of the rules and regulations pertaining to its efficient functioning, including transparency and accountability.

4. Priority should be given to the alleviation of the debt problem of poor countries. In that context, the integration of the least developed countries in the multilateral trading system was of particular relevance, since trade played a significant role in enhacning access to financial resources for development. The main objective should be to achieve better market access conditions for the least developed countries and increase their trading opportunities. The overall aim should be to strengthen and improve the mechanisms which were conducive to achieving concrete results in the field of financing for development.

5. **Mr. Al-Haddad** (Yemen) stressed the importance of the items before the Committee concerning the financing of development and the external debt crisis, particularly at a time when most of the developing countries, and even some of the industrialized countries, had been affected by the crisis. Those items must be considered in the context of the ideas and proposals contained in General Assembly resolution 52/179, especially with regard to the establishment of an ad hoc working group. The analysis should also include short-term monetary flows, the strengthening of the prospects for long-term investment, the financing of development programmes in a realistic manner and under preferential conditions, and the obtaining of the necessary resources through trade. The dialogue which had been held on all those issues had given rise to a fruitful exchange of views between the United Nations, the international financial institutions, and personalities of the academic world.

6. Globalization had positive and negative effects, and the latter included the emergence of widespread crises. Emphasis must be placed on building trust, and the importance of mutual support and association for development must be recognized, without losing sight of the need for recognition of common economic interests.

7. The lack of financing sources for development activities in the developing countries was the greatest obstacle to the achievement of national objectives. The diversity of financing modalities and many other factors made it necessary to find the best way of confronting the crises and dealing with their social, human and environmental dimensions.

8. Yemen was still living under the impact of the crisis which had erupted in South-East Asia in July 1997 and was continuing to seek ways of dealing with its repercussions and establishing strategies to break out of the vicious circle and prevent a repetition of the situation. In approaching all those questions it was necessary to be realistic; development partners should seek to coordinate their views and present consensus proposals, with regard to both the management of the crises and the implementation of national economic plans. In his report (A/53/398), the Secretary-General referred to the methods which had been used to manage the East Asian crisis, which had given rise to various criticisms. Consensus must be reached on the policy with regard to macroeconomic management for development, in order to integrate it within the framework of the international financial system so as to escape from the vicious circle of crises; it was essential to ensure transparency of all the participants in international financial markets, especially the currency market.

9. External debt and debt-servicing problems constituted an obstacle to development. Economic volatility accentuated their impact; integrated solutions must therefore be found to resolve those questions in a global context. Some measures,

such as debt refinancing, had not produced the expected results, since the cumulative amount of debt had reached alarming proportions. The international community should take steps to alleviate that problem, and in that respect attention should be drawn to the constructive proposals appearing in General Assembly resolution 52/185, which stressed the need to find effective, equitable, development-oriented and durable solutions to the external debt and debt-servicing problems of developing countries.

10. **Mr. Aung** (Myanmar), said that his delegation associated itself with the statement made by Indonesia on behalf of the Group of 77 and China. Development was indispensable to the achievement and maintenance of peace and security at both the national and international levels. Development must be equitable, since inequity, in its many facets, tended to create tensions internally as well as externally, and must therefore be avoided and rectified as soon as it was discovered. Inequity and disharmony in development occurred for a variety of reasons, but the problems could be resolved if both the affected and the assisting development partners applied the necessary corrective measures in a proper and timely manner. To that end it was essential to have adequate funds when and where required, since delays could nullify the effectiveness of any measures that were undertaken.

11. In many cases, official development assistance was and would remain the most effective remedy to rectify the problems of inequity in development. Myanmar called on all those in a position to do so to maintain or, if possible, increase that assistance wherever there was a need. The persistent decline in official development assistance had been at least part of the reason why agencies involved in development activities had been compelled to look for other methods of financing. Even though many development partners were fulfilling or even exceeding their assistance obligations, some of the richest nations were deaf to the voices of the needy. Myanmar reiterated its view that official development assistance could not be replaced by any other method of financing, since it was much more comprehensive and covered a broader and more complete spectrum of development activities. Thus, although the need to continue to explore ways and means of increasing the availability of the necessary funds for development must be recognized, those new sources of financing could only be a complement to official development assistance and not a replacement for them. In that respect, Myanmar supported the proposals made by Indonesia on behalf of the Group of 77 and China on the key elements that could be included in the consideration of financing for development.

12. His delegation hoped that the development agencies would utilize any available funds, without any conditionalities. Development, which was indivisible from peace, should have neither barriers nor conditionalities, and assistance should be provided where it was needed most.

13. Myanmar welcomed the formation of the ad hoc open-ended working group and pledged to cooperate in formulating a report containing recommendations on the form, scope and agenda of the high-level international intergovernmental consideration of the topic of financing for development, as envisaged in General Assembly resolution 52/179.

14. **Mr. Mahugu** (Kenya) said that his delegation associated itself with the statement made by the representative of Indonesia on behalf of the Group of 77 and China. Although globalization and liberalization had provided opportunities for growth and development for some countries and offered prospects of economic gain and the generation of wealth, many developing countries, especially in sub-Saharan Africa, had not been able to take advantage of those processes because they lacked the capacity to compete, making them vulnerable to further marginalization. Those difficulties were further complicated by the unilateral imposition of non-economic conditionalities, such as human rights, environmental and labour standards.

15. The widening gap between developed and developing countries could, if unchecked, destabilize the global economy. Furthermore, the integration of all countries into the global trading system would facilitate the expansion of trade, investments and services and promote economic growth and development, at the international level.

16. The international community had undertaken to provide substantially increased support to developing countries in view of the severe constraints faced by them, but, unfortunately, those commitments remained largely unfulfilled. He expressed appreciation for the assistance provided by a few donors, such as Denmark, the Netherlands, Norway and Sweden, which had met and even surpassed the agreed target of 0.7 per cent of the gross national product. Despite the importance of measures aimed at mobilizing domestic resources through trade and other means, the developing countries were still largely dependent on official development assistance, both bilateral and multilateral. In that regard, Kenya supported the call for the convening of an international conference on financing for development, and for the constitution of an open-ended working group to facilitate the preparation of the agenda of that conference, in accordance with General Assembly resolution 52/179. The working group should consider, *inter alia*, the issues of mobilization of international private and official financial

flows for development, international financial cooperation for development, regulation of the international monetary and financial systems, the problem of external debt and trade and financing for development.

17. Practical measures were needed to alleviate the heavy debt burden shouldered by developing countries, and those measures should be carried out at the multilateral level without diverting development funds from other uses or increasing pressure on bilateral donors. Kenya supported the constructive proposals already made in that connection, particularly those aimed at promoting innovative and sustainable debt solutions, such as the creation of a multilateral debt facility. Kenya also joined those delegations which had raised concerns about the slow pace of the Heavily Indebted Poor Countries Debt Initiative and had drawn attention to the need to make the review eligibility criteria more flexible so as to accommodate other low income countries which shared the burden of debt.

18. A majority of the developing countries, especially those in sub-Saharan Africa, were dependent on the export of a few primary commodities whose prices were unstable. If those countries were to accelerate the transformation of their productive structures with a view to achieving effective integration in the global economy, they needed to attract substantial financial inflows, from both the official and private sectors. Unfortunately, those countries had been unable to attract meaningful investments, while official funding sources had declined. It was essential to adopt an integrated approach, in which commodity export earnings were at the core of economic development, and to put in place a mechanism to achieve and maintain price levels that were remunerative to producers and equitable to consumers by reducing excessive price fluctuations as well as assuring market access and reliability of supply.

19. Kenya had full confidence in the important role of the United Nations system in facilitating the process of the democratization of international relations and in the new global approaches to development cooperation though partnership and collective ownership.

20. **Mr. Zarie Zare** (Islamic Republic of Iran) said that his delegation associated itself with the statement made by Indonesia on behalf of the Group of 77 and China. It stressed the importance of foreign investment as one of the main sources of development financing, but also drew attention to the risks. Capital tended to flow to countries and sectors where returns were high and risks were low. Those flows took many forms including foreign direct investment, the modality preferred by host countries, or short-term portfolio investment, whose high mobility could create financial disruption in developing countries.

21. Although resource flows to developing countries had increased from $100 billion in 1990 to over $250 billion in 1996, they had been mostly composed of private capital. Since the early 1990s, all categories of official capital flows, with the possible exception of multilateral concessional flows, had declined. The majority of the developing countries had been marginalized in that process, and it was therefore necessary to ensure the distribution of those flows in all regions of the developing world.

22. Although the need to strengthen international economic cooperation based on the principles of international law and recognized norms had been reiterated in most intergovernmental fora, there was increasing recourse to unilateral coercive economic measures and the enactment of domestic laws with extraterritorial effects. Such policies and measures constituted a major barrier to freedom of finance and the access of all countries to financial resources and hampered the economic development and expansion of financial relations at all levels. All countries should refrain from recourse to such measures and abolish those that were already in place.

23. The main causes of the current crisis were high mobility and the volatility of short-term portfolio investment and deficiencies in the domestic regulations which should regulate and monitor financial inflows and limit their negative impact. Over the years, the institutional investors had become key players in the world's capital markets, always in search of higher and quicker returns and diversification of their portfolios. Various factors clearly indicated that the problems resulting from those practices would remain for a long time and that there was even a strong possibility that the problems would increase. Efforts should therefore be made to establish institutional frameworks at the international and national levels to promote supervisory and regulatory arrangements. The current crisis had demonstrated that the risk of contagion was increasing and the sources of instability must be contained. That required the active participation of all the developing countries in decision-making and standard-setting and in establishing new arrangements.

24. The convening of an international conference on the financing of development, with a broad agenda and scope, could provide inputs for such arrangements. The Islamic Republic of Iran looked forward to an early decision on the establishment of a working group under General Assembly resolution 52/179 and the commencement of its work at the earliest possible date.

25. External indebtedness continued to be a major drain on resources for development in the developing countries. At the end of 1997, the total external debt of all the developing countries and economies in transition had increased by 4 per cent compared with 1996, and the tremendous efforts made by the developing countries to improve their performance had not been matched by international initiatives for debt reduction at the international level. The pervasiveness of the financial crisis gave rise to concerns that the debt crisis would be even further aggravated. The Heavily Indebted Poor Countries Debt Initiative was an important step in restoring economic development in poor countries, but the heavily indebted lower and middle income countries also needed new initiatives to facilitate the financing of their development. In that respect, greater flexibility was needed in the eligibility criteria for current and future initiatives.

26. **Mr. Kebede** (Ethiopia) said that he wished to associate himself with the statement made on behalf of the Group of 77 and China. Development financing, which had been the foremost issue on the North-South agenda for decades, had become marginalized in recent years and most developed countries had failed to meet the development assistance target of 0.7 per cent of their gross domestic product (GDP). In view of the phenomena of donor fatigue and aid pessimism, the international community needed to undertake an in-depth intergovernmental analysis of the levels, uses and effectiveness of development financing, from which policy conclusions should be drawn.

27. International development assistance would continue to be needed for years to come, especially in Africa and in the least developed countries, which had difficulty in raising their domestic savings rate and attracting commercial flows. It would be needed for activities, projects and programmes which, though vital for national development, were not attractive to private capital and for which sufficient domestic resources could not be mobilized.

28. In the face of that reality, the convening of an international conference to examine the various dimensions of development financing was a matter of urgency. Among other things, the conference would have to establish achievable official development assistance (ODA) targets and explore new sources of concessional financing. It was also time for the international community to promote the creation of democratically managed funds, drawing on the experience of individual countries and regional groups so that resources could be channelled to those geographic areas that had been marginalized from the global economy. At the same time, comprehensive and decisive action was needed to address the threat which an unsustainable debt burden posed to the economic security and long-term stability of developing countries, especially in Africa. A lasting solution to the African debt problem required debt relief that promoted economic reforms and enhanced the capacity of countries to attract investments.

29. Ethiopia had welcomed with great optimism the Heavily Indebted Poor Countries (HIPC) Debt Initiative, under which creditors had agreed to a comprehensive and integrated approach to debt reduction, but was disappointed by the slow pace with which the Initiative was being implemented. Indeed, two years after its launching, only one country, Uganda, had fully benefited from the relief measures provided for in the Initiative. The process needed to be accelerated, more flexible eligibility criteria adopted and adequate resources mobilized.

30. It was imperative to clear the entire debt stock of the poorest countries within a reasonably short period of time and in the context of their economic reforms. Such a measure should be accompanied by complementary actions to spur development and growth. In that regard, Ethiopia endorsed the recommendations of the Secretary-General, which highlighted a number of priority areas, including the need to increase the volume and improve the quality of development assistance, consider the possibility of converting all remaining official bilateral debt into grants, liberalize access to the HIPC Debt Initiative, ease access conditions for African exports and encourage investments in Africa, which had been largely marginalized from the process of globalization. Ethiopia believed that the implementation of the above recommendations would greatly help to integrate Africa into the world economy and bolster the efforts of African countries to promote development and economic growth in the continent.

31. **Mr. Nishigahiro** (Japan) said that the crisis that had begun the previous year in South-East Asia and had then spread to Russia and Latin America had affected most severely the developing countries and, within those countries, the most vulnerable sectors. As the Secretary-General had noted, the net transfer of resources to developing countries had turned negative for the first time since 1990.

32. In the short term, the international community must try to place the affected countries back on the path to economic recovery and social stability. Over the longer term, the challenge was how to cope with the new situation of the world economy, in which markets were becoming increasingly interdependent and economies more vulnerable to movements of capital on an international scale.

33. At the national level, the Government of Japan had adopted a number of fiscal measures, such as the approval in June of a supplementary budget of 16 trillion yen for the fiscal

year 1998, a tax reduction of 2 trillion yen and planning for a second supplementary budget totalling 10 trillion yen. Monetary (reduction of the official interest rate to 0.5 per cent) and financial (reform of the banking sector) measures had also been introduced.

34. Japan had committed itself to providing the Asian countries caught in the crisis with the largest packages of bilateral support offered by any country. While exchange rates had stabilized in those countries and the fundamentals of their economies remained strong, they still had huge medium- and long-term capital needs in order to achieve further economic growth. In response to those needs, Japan had presented a scheme for bilateral financial assistance totalling US$ 30 billion known as the "Miyazawa plan" and intended to collaborate closely with other countries and multilateral development banks to ensure that the scheme was implemented.

35. Japan was of the view that economic management and a development strategy that made the most of market mechanisms were still valid ways of dealing with the new globalized economy. Greater exposure to market mechanisms would increase the economic efficiency of developing countries and of countries with economies in transition and should therefore continue to be a major policy priority for those countries, which must maintain sound macroeconomic policies, improve regulatory and accounting systems and strengthen the supervision of financial institutions for appropriate risk control.

36. It must be said, however, that no country was fully protected from the risks inherent in the globalization of financial markets. Accordingly, there were some who argued that the Bretton Woods institutions were outdated and that there was a need for a completely new financial architecture. On the contrary, Japan was of the view that, despite the changes in the world economy, the institutions which had been established at Bretton Woods had played a vital role in containing the current crisis and that, far from scrapping them, the international community should concentrate on improving them so that they could perform the functions which they were expected to perform in the new global economy. For example, one issue that needed immediate attention was the system for monitoring the movements of capital. It was also necessary to bolster the financial base of the International Monetary Fund (IMF). To that end, Japan urged those countries that had not yet done so to complete as soon as possible the procedures for the approval of the new General Arrangements to Borrow (GAB) and the quota increase.

37. Japan recognized the need to continue to search for a durable solution to the external debt problem, which continued to plague a great number of least developed countries, many of them in the African continent, and welcomed the progress achieved by the launching of the HIPC Debt Initiative and its extension up to the end of the year 2000. In order to assist those countries, the Government of Japan had contributed $47 million to the trust funds of the World Bank and IMF and in December 1997 had announced a set of debt-relief measures, including the reduction of the moratorium interest rate, which was equivalent to up to a 90 per cent reduction in the debt of countries that were eligible for the HIPC Debt Initiative.

38. His delegation welcomed the process that had been initiated with the adoption of General Assembly resolution 52/179, which was aimed at building a global partnership for the financing of development to reduce poverty and achieve sustainable development. While it was important to mobilize more resources (official and private, domestic and foreign), it was no less important to improve the way those resources were being used to achieve the targets which the developing countries had established for themselves.

39. Some countries had recorded spectacular growth, while others had remained stagnant. It would be useful to study the efforts made by both groups of countries and to learn from their experiences so that maximum advantage could be taken of available resources, for the benefit of the greatest number of people.

40. **Mr. Dos Santos** (Mozambique) associated himself with the statement made on behalf of the Group of 77 and China.

41. Macroeconomic stability and the creation of an enabling environment for private and public sector investments were fundamental to economic growth and social development. However, despite the fact that the overwhelming majority of developing countries, including Mozambique, had implemented structural adjustment programmes, liberalized their economies and undertaken other reforms which had had serious social consequences, financial resource flows had diminished, resulting in a vicious circle of economic stagnation and financial crisis.

42. The external debt of the developing countries, particularly the least developed countries (LDCs), continued to deprive them of the resources needed for social and economic development and for the creation of an enabling environment for sustained growth. The economic and financial crisis affecting various countries in the developing world made it clear that, as long as external debt remained at the levels indicated by the Secretary-General, development

efforts would have little impact on living standards of the peoples of those nations.

43. His delegation appreciated the fact that, as had been apparent at the annual meeting of the World Bank and the International Monetary Fund held recently in Washington, D.C., there was increasing awareness of the need not only to speed up current mechanisms for addressing the debt problem but also to look into new avenues that might lead to a lasting solution. More LDCs, including those emerging from conflicts, should benefit from the Heavily Indebted Poor Countries (HIPC) initiative. His delegation supported a global solution to the debt problem, in which the developing countries' outstanding debt would be written off unconditionally or converted into grants whose resources would be used in social development programmes. In that regard, he welcomed the initiative announced by the Secretary-General at the Security Council ministerial meeting on Africa and was encouraged by the initial positive reaction to that initiative from donor and creditor countries.

44. Efforts were under way to devise sustainable development strategies which would provide basic levels of human development to all peoples, and a constructive dialogue was taking place among Governments, the private sector and civil society at large with a view to creating a partnership that entailed ownership of the development process. Participants in a conference of non-governmental organizations held recently in Maputo had concluded that the external debt crisis was a shared responsibility and not just a concern of Governments and creditors. In that connection, creditors needed to realize that their contribution must be to cancel the debt.

45. His delegation hoped that, in its deliberations, the Committee would bear in mind the need to devise development strategies that were people-centred and tailored to the needs of individual countries. Current levels of external debt made it impossible to reduce poverty and improve access to health and education services, and no stable economic fundamentals could mitigate the debt's impact. The time for action had come.

46. **Mr. Al-Hitti** (Iraq) said that the international community must study the current global economic crisis in order to find ways of limiting its impact, particularly on developing countries, which were already experiencing economic imbalances created by, *inter alia*, structural adjustment programmes and the demands of globalization. As the Secretary-General pointed out, the effects of the crisis had been felt in the financing of development and in the net transfer of resources from developed to developing countries, which had been negative in 1997. His delegation was also disappointed at the decline in both bilateral and multilateral official development assistance, which would exacerbate the economic difficulties of developing countries.

47. The Secretary-General's report on the debt situation of the developing countries (A/53/373) and various economic indicators showed that the external debt situation of those countries was no better than the situation in other areas of their economies. The report indicated that, at the end of 1997, the total external debt of all developing countries and countries in transition had been estimated at US$ 2.2 trillion, an increase of 4 per cent ($76 billion) over 1996. The most serious aspect of the debt crisis was that it complicated efforts to address the problems of the 41 heavily indebted poor countries, whose total external debt had amounted to $245 billion at the end of 1996. Their debt burden remained severe, with a debt stock to export ratio of well over 300 per cent.

48. In that bleak situation, it was encouraging to see a growing consensus that countries which undertook to pay off their debt within a specific time-frame should not be penalized. In seeking solutions, priority should be given to reducing debt stock and debt servicing and to refinancing the debt, without imposing political conditions on indebted countries. Those objectives could be achieved only through negotiations involving debtors, creditors and financial institutions, following an exhaustive analysis of the problem and of any solutions that might help to alleviate the debt burden and secure a net transfer of resources from developed to developing countries. To that end, international cooperation would have to be intensified by improving trade relations and access to markets, sharing new technologies, creating a favourable international financial and economic order and allocating increased development resources to developing countries.

49. World Bank and International Monetary Fund strategies, as well as the problem of reverse financial flows, should also be analysed, with a view to providing new financing to the developing countries on favourable terms and to establishing debt repayment periods that would allow them to promote economic, social and cultural development.

50. **Mr. Suh Dae-Won** (Republic of Korea) noted that, until the previous year, the Second Committee's deliberations on private capital flows had focused on their uneven distribution and on ways of attracting private capital and foreign direct investment in order to finance development. The current financial crisis, caused by massive inflows of private capital and their sudden reversal, had, however, forced the Committee to view the implications of private capital flows into developing countries from a completely different perspective. No one had predicted such a devastating

turn of events, and the full implications of the crisis were not yet understood. That was the case not only for development financing but also for how best to manage private capital flows in the future. Private capital must be not only attracted but also retained, and sudden reversals of capital flows must be countered to ensure that such flows were tools conducive to development, not crises.

51. A number of lessons could be drawn from the current crisis. First of all, markets and Governments, especially in developing countries, were ill-prepared to avoid the risks of financial globalization. Structural reforms in finance and in the corporate sector must therefore be oriented towards enhanced transparency and accountability, as a prerequisite for liberalization. Sound monetary and fiscal policies were also essential to reducing potential crises. Secondly, the speed of financial liberalization must be carefully reviewed, in order to avoid the risk of a premature opening of domestic markets without a sound financial system. Thirdly, the international financial system in its current form appeared to be ill-suited to preventing and containing crises and must therefore be restructured. Cooperation between the United Nations and the Bretton Woods institutions would also help to build a consensus on the shape of the future global economy.

52. His delegation welcomed the fact that the Committee was to launch an intergovernmental process to determine viable, operative strategies for the financing of development in the twenty-first century. Specific guidelines should be provided for the deliberations of the Ad Hoc Working Group to be set up in early 1999 to tackle that vast agenda. His delegation was pleased to note that the Secretary-General's report covered all the potential issues to be considered by the Ad Hoc Working Group and believed that all those elements should be considered on an equal footing. It hoped that the Working Group would focus on the issue of financial liberalization, especially, the role of private capital flows, and on institutional issues and policy measures for management of rapid liberalization. The Working Group's deliberations should also be closely coordinated with the ongoing discussions within the Bretton Woods system, in order to define the potential added value which the United Nations could offer.

53. **Mr. Fahmy** (Egypt) associated himself with the statement made on behalf of the Group of 77 and China and said that, on the threshold of the twenty-first century, globalization and the instability of the global economy posed enormous problems for developing countries, most of which did not have the resources to make the investments needed to achieve a positive rate of development and growth. It was therefore essential that those countries receive official development assistance and foreign investment flows, although net short-term transfers could also play a useful role.

54. The current global financial crisis and the reduction in foreign investment capital flows had coincided with the implementation of an economic reform policy in Egypt which included a stabilization and restructuring process aimed at attracting investment capital flows and establishing a modern financial infrastructure, as well as the development of the banking sector and the creation of a stock exchange, again with a view to attracting investment and promoting privatization. In view of developments in the international economic arena which were unrelated to Egypt's internal situation, his delegation warned that stabilization of the international economy must be given priority in order to safeguard countries' domestic achievements. It therefore associated itself with any collective efforts that might be made to reform the international financial system and avoid a recurrence of similar situations in the future.

55. His delegation was concerned at the reduction in official development assistance and at the failure to meet the target of allocating 0.7 per cent of GNP to such assistance. That situation was particularly detrimental to the least developed countries, most of which were in Africa and were experiencing socio-economic problems exacerbated by external debt and lack of resources. His delegation welcomed any effort to alleviate the debt burden of those countries and trusted that the Working Group on development financing would begin its work as soon as possible and help find a solution to the difficulties facing the developing world.

56. **Ms. Durrant** (Jamaica) said that her delegation associated itself with the statement made on behalf of the Group of 77 and China. Turning to the Secretary-General's report on the financing of development (A/53/228), she observed that the report was a reminder that there were dangers as well as opportunities in the international financial market place, such as the sudden change of direction in capital flows to the developing countries and the continuing shrinkage of official development assistance.

57. In the past year, the effects of the Asian and Russian crises had contributed to depressed commodity prices, the undermining of currency and financial markets, liquidity problems and heightened credit risk for highly indebted countries. Despite the efforts of the affected countries and the intervention of the multilateral financial institutions, the crisis had not abated and the potential consequences for those countries included a reduced rate of liberalization; the possibility that they might seriously consider defaulting on their debt; the contraction of expenditure, which inevitably

meant reduced spending on social services; and the possibility of widespread social and political upheaval.

58. The Secretary-General's report on the debt situation of the developing countries (A/53/373) provided a very comprehensive analytical overview of that situation. One of its fundamental messages, with which her delegation concurred fully, was that a concerted international response was needed to the long-term debt problem of the developing countries. The persistence of that problem was an indication of the inadequacy of existing mechanisms in dealing with it and of the urgent need for their reassessment. For instance, the slow implementation of the Heavily Indebted Poor Countries (HIPC) initiative was cause for concern: in the two years since its launching, only one country had benefited from the full-fledged relief which it provided. The Secretary-General's report contained recommendations in that connection which her delegation endorsed, namely: simplify debt sustainability analysis and fully involve debtors in determining debt sustainability criteria; shorten the implementation period for eligible countries, rather than applying general prescriptions; and provide adequate funding for an expeditious resolution of all eligible cases.

59. Her delegation also agreed fully with the United Kingdom initiative "Debt 2000: the Mauritius mandate", which called for the accelerated implementation of the Heavily Indebted Poor Countries initiative and aimed to have all eligible countries embarked on the HIPC process by the year 2000. It also envisaged that, by the year 2000, there would be firm decisions on the amounts and terms of debt relief for at least three quarters of those countries.

60. Her delegation believed that, in addition to national strategies, an overall and comprehensive international strategy was needed to address the debt problem, and that two critical factors must be considered in that connection: first, the adequacy of the response of individual countries and, secondly, the response of the international community, including the multilateral development institutions. In terms of national strategies, many countries had undertaken policies aimed at strengthening fiscal performance, increasing domestic savings, strengthening financial sectors by improved regulation and monitoring and greater capital requirements, and increasing macroeconomic stability. In terms of the response of the international community, it was important to recognize the resource constraints of the Bretton Woods institutions, which needed to make better use of available resources and seek to implement policies that would foster confidence. Those institutions' technical analyses also needed to be improved and made more flexible, in order to give them a better understanding of the unique features of individual countries and the need to apply tailor-made policies to them.

61. The United Nations had a role to play both as a forum for developing countries to express their concerns and in cooperating with the Bretton Woods institutions on economic and social issues. It must remind the international community that multilateralism was not one-sided and that economic and financial crises had far-reaching social repercussions.

62. **Mr. Pashayev** (Azerbaijan) said that financing of development was important for all countries. For countries in transition, for instance, the transformation from planning to market relations had caused a substantial deterioration in socio-economic indicators and the loss of many pre-existing social gains. The recent crisis in Russia had shown the vulnerability of young market systems. The developed market economies, for their part, must monitor financial flows in order to ensure the stability of their internal markets and find new, potentially attractive markets for their products.

63. It was clear from the Secretary-General's report on the financing of development (A/53/228) that expectations in terms of future financial flows were not optimistic. His delegation believed that long-term investments undoubtedly played a major role in development. There were certain trends in long-term investment flows that were unfavourable to developing countries and countries in transition. However, private long-term financing was an objective process linked with the aims and potential of transnational corporations, which were looking not only for fast profits but also for a favourable investment climate. For economies in transition, foreign direct investment was a necessary catalyst for development, for it gave those countries access to new technologies, know-how and management experience.

64. Following the break-up of the Soviet Union, Azerbaijan's economy had suffered from serious economic imbalances. Between 1991 and 1995, real GDP had declined by around 60 per cent. Since 1995, his Government had implemented a comprehensive stabilization programme supported by international institutions. As a result, in 1997 real GDP had increased by 5.75 per cent, and in the first quarter of 1998, the annual growth rate of GDP had risen to around 9 per cent. His Government was doing its best to create a favourable investment climate and in 1997 had received over 1 billion dollars in foreign direct investment. At the same time, given the potentially negative impact of volatility in oil prices, the Government had drawn up an investment programme for 1999 designed to revive non-oil industries.

65. Short-term capital flows were equally necessary for the financing of development and were of economic interest to both countries of origin and receiving countries. However, the sudden change of direction in such flows had resulted in

substantial currency devaluations and had required the sudden contraction of trade deficits. In that connection, it was clear that countries themselves must take prompt, effective measures to protect their markets and that international financial institutions, particularly the International Monetary Fund (IMF), should provide prompt support to them.

66. Because of their capacity for large investments and their ability to operate through risk-sharing and because small and medium capital flows followed them in newly emerging markets, transnational corporations were key actors in the transfer of resources and in the process of globalization.

67. The decline in official development assistance (ODA) in recent years was cause for concern, even if it was sometimes connected with objective circumstances such as the fall in the exchange rates of various donor-country currencies against the United States dollar. ODA was a necessary tool for the economic survival of low-income countries and for permitting the creation of new areas of economic activity. Cuts in the aid budgets of some countries could damage long-standing international cooperation commitments. It was therefore important to achieve the target of 0.7 per cent for ODA, especially in the current situation of financial crisis in some markets. At the same time, ways should be examined of increasing the effectiveness of aid programmes and curtailing their overheads.

68. Given the deterioration in international economic and financial conditions in the past year, IMF should take prompt and effective action and work with member countries on crisis prevention and management, as well as engage in a closer and more intensive policy dialogue with Member States in order to identify financial sector vulnerabilities that had potential macroeconomic implications. Countries, for their part, needed a healthy banking and financial system.

69. **Mr. Cabactulan** (Philippines) associated himself with the statement made by Indonesia on behalf of the Group of 77 and China. The financing of development was a much bigger concern than the establishment of a new international financial system or the strengthening of the existing one, for it touched on the core requirement of development, namely, financing and encompassed a host of interrelated issues, including the mobilization of domestic resources; development cooperation and official development assistance; and the resources generated from trade and other export services. It thus made no sense to fear that the discussion of development financing would be used as a pretext for restructuring the international financial system or would be limited to ODA, although, clearly, neither of those issues could be avoided.

70. The basic concern was to promote a partnership that engendered a mutually beneficial relationship whose underlying goal was the eradication of poverty — the basic rationale of all the international economic conferences held in the 1990s. There was also a need to ensure an interface among interrelated activities and initiatives. For instance, there were plans to convene a high-level intergovernmental meeting on the financing of development, whose scope, content and agenda would be defined by the Ad Hoc Working Group set up for that purpose. The Second Committee should look at the items that might be considered by such a meeting and at how to factor into the process such related activities as the recent meeting of finance ministers referred to by President Clinton, which had looked into ways of strengthening the existing international financial system. There was also a proposal to establish a small group within the IMF/World Bank Development Committee to work on related issues. The Ad Hoc Working Group should perhaps establish some kind of order to prevent certain activities from interfering with others.

71. The documentation prepared by the Secretariat was important and duly reflected the situation of the developing countries. It was also important to describe how the financial crisis had affected the developing countries of Asia. With regard to the debt problem, the various proposals made in paragraphs 66 and 67 of document A/53/373 were useful and must be given careful consideration. Lastly, his delegation intended to make a statement in the plenary Assembly on the causes of conflict and the promotion of durable peace and sustainable development in Africa.

The meeting rose at 4.55 p.m.