United Nations
GENERAL ASSEMBLY
FORTY-SECOND SESSION
*Official Records**

SECOND COMMITTEE
12th meeting
held on
Wednesday, 14 October 1987
at 10 a.m.
New York

SUMMARY RECORD OF THE 12th MEETING

Chairman: Mr. OUDOVENKO (Ukrainian Soviet Socialist Republic)

CONTENTS

*This record is subject to correction. Corrections should be sent under the signature of a member of the delegation concerned *within one week of the date of publication* to the Chief of the Official Records Editing Section, room DC2-750, 2 United Nations Plaza, and incorporated in a copy of the record.

Corrections will be issued after the end of the session, in a separate fascicle for each Committee.

Distr. GENERAL
A/C.2/42/SR.12
26 October 1987
ENGLISH
ORIGINAL: FRENCH

87-56121 7102S (E)

138

/...

The meeting was called to order at 10.10 a.m.

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

1. Mr. GARCIA COSTA (Uruguay) said that resolution 41/202 on external debt adopted by the General Assembly at its forty-first session was extremely important, for it brought together four basic factors: the role which the United Nations should play in resolving the crisis; the existence of features common to all countries; the need to take account of the political aspect of the crisis; and the need for concerted international action. The resolution had marked the beginning of a long process leading to the adoption of the Final Act of the seventh session of the United Nations Conference on Trade and Development. It was now generally accepted that both debtor and creditor countries shared the responsibility for the crisis; that the developing countries must try to meet their foreign commitments by implementing a growth-based strategy and not by making recessionary adjustments; that debt service payments should depend on each country's capacity to pay; that there was an urgent need to find new means of easing the debt burden; that the creditors must show greater negotiating flexibility; that the least developed countries should be granted favourable terms; and lastly that flows of resources to the indebted countries must be increased.

2. However, the concrete progress had been far from meeting expectations, and the outlook remained gloomy. The General Assembly must therefore continue its efforts to devise new schemes which took into account the value of the debt in the secondary market and the repayment modalities agreed with respect to both interest and principal. It must also try to gain wider acceptance of the fact that the debt crisis could not be resolved as long as the developing countries remained net exporters of resources to the developed countries; that the terms of access of the developing countries to the resources of multilateral financial bodies must be improved; that new financing mechanisms must be devised that took account of the growth rate of the developing countries; and lastly that the developed countries must undertake to adopt domestic financial regulations which would enable them to establish the necessary machinery to solve the debt problem.

3. In conclusion he stressed the special importance that his country attached to the relationship between debt and international trade. That issue should receive greater attention, for relief of their foreign debt would enable the developing countries to devote more resources to growth and to imports, especially from the industrialized countries, and this would lead to an expansion of world trade and thus of the world economy. However, that meant introducing into the negotiations a link between the payment of debt service and the growth rate of exports or any other variable reflecting the external trade situation, or indeed an index of domestic economic activity. Whatever the measures taken, the most important thing was to find a solution to the problem as a matter of urgency.

/...

4. Mr. ABBASI (Pakistan) said that the fundamental question of the crisis of debt (which now amounted to more than $1,000 billion) was whether the debtor countries could honour their commitments in a hostile international economic environment. At its forty-first session the General Assemby had defined the parameters of a lasting solution to the debt problem in resolution 41/202. The developing countries had made an effort to meet their obligations by initiating difficult structural adjustment measures at a heavy social cost, devaluing their currencies to make their exports more competitive, deregulating their economies, and encouraging investment through the mobilization of domestic savings. Compelled to allocate a large part of their export earnings and new loans to service the debt and strengthen the balance of payments, they had had to restrict their social programmes and reduce development investment more than was desirable. The developed countries, in contrast, had increased their restrictive trade practices, in particular with respect to the products and sectors in which the developiq countries were competitive, and that had had adverse effects on the growth of world trade. Furthermore, the prices of commodities, on which the developing countries depended so heavily, had not recovered. Flows of external finance had declined and bank loans had completely dried up, while the debtor countries had continued to repay their debt, with a resulting negative cash flow of $24 billion in 1986. Lastly, interest rates had continued to rise.

5. Enhanced co-operation was vital to progress in the settlement of the debt problem. It should take the form of a multidimensional strategy encompassing in particular a significant and continued reduction in real interest rates, easier debt rescheduling terms, enhanced financial flows from official and private sources, conversion of the debt of low-income countries and the least developed countries into grants, and creation of a debt refinancing facility under the auspices of the World Bank and the IMF with a view to restructuring third world debts through a variety of innovative schemes. Lastly, the World Bank should once again become a major net lender to the developing countries, de-link its lending rate from the commercial market rates, finance adjustment through growth by undertaking more non-project lending, and resume its interrupted role as a development bank.

6. Those measures alone would not suffice. A global effort must be made to enable the debtor countries to exploit their development potential to the utmost in an economic environment which facilitated debt repayment without impinging upon development priorities. It was to be hoped that the international community would build on the consensus contained in resolution 41/202 in a spirit of co-operation, understanding and shared responsibility.

7. Mr. STEBELSKI (Poland) said that his country followed with utmost attention and great interest the development of the foreign debt crisis. It had firmly supported the inclusion of an agenda item on that question at the forty-first session of the General Assembly, and the adoption by consensus of resolution 41/202 had shown that the United Nations could and should play an important political role in the quest for a solution.

/...

(Mr. Stebelski, Poland)

8. Although certain developments might have suggested that the crisis was manageable and did not require innovative approaches, the developing countries had never viewed it as a minor problem. For several years they had been signalling that their situation was becoming increasingly unbearable and that, unless they received genuine aid, they would not be able to meet their foreign commitments. However, the measures taken had merely aggravated the situation and it was only now that a more realistic and pragmatic approach was being taken which might prove effective. Without a favourable external environment and increased flows of foreign funds, it was unlikely that the adjustment measures taken by the debtor countries could really improve their situation. The strategy to be implemented could be based only on mutual trust among all the parties concerned and must take into account all aspects of the crisis.

9. Non-governmental organizations and scientific units should continue to complement the work of governmental and financial institutions at the national and international levels. At the end of 1986 the Research Centre on International Debt and Development had been set up in Cracow to organize and co-ordinate research on the interrelationship between debt and development and to serve as a forum for the exchange of views and ideas with other national and international organizations including, if possible, the United Nations.

10. His delegation welcomed the reports of the Secretary-General on the net transfer of resources from developing countries to developed countries (A/42/272) and on the current international monetary situation (A/42/555) which showed that the crisis was not entirely the fault of debtor countries and that the selective nature of international credit creation was a major shortcoming of the monetary system. It was quite understandable, therefore, that non-aligned and developing countries should have proposed convening an international conference on money and finance for development. Whatever the decision on such an undertaking, increasing the involvement of the General Assembly in discussions on global issues of money and finance would be in the interests of all Member States. As a universal body, established, among other things, to achieve international co-operation in solving international problems of an economic, social, cultural or humanitarian character, the United Nations should have a say on issues which limited or excluded the possibility of promoting "social progress and better standards of life in larger freedom". Poland sincerely hoped that the General Assembly would show the necessary political will to enable the indebted developing countries to achieve sustainable development and was ready to play an active part to that end.

11. Mr. ALPTUNA (Turkey) said that Turkey had emphasized on several occasions the deficiencies in the present structural adjustment programmes and the need for prompt action to remedy them. The Secretary-General's report on the debt crisis reflected the gloomy prospects in an objective manner and offered a good basis for discussions in the Committee. Since it was a development crisis with economic, social and political implications, efforts should be concentrated primarily on establishing more fruitful co-operation between United Nations organs and the Bretton Woods institutions.

/...

(Mr. Alptuna, Turkey)

12. It had taken both debtor and creditor countries some five years of misguided effort to reach the crisis point in 1982. Since then, experience had shown that many developing debtor countries had few means of countering the adverse impact of such external factors by themselves. An important step had been taken in 1985 with the adoption of a growth-oriented strategy and the greater interest shown in the economic and social implications; but despite all those efforts and some positive signs, the problem remained critical, essentially because of the shortage of sufficient external resources and widespread protectionist practices. It was therefore necessary to reach the internationally agreed ODA targets and to strengthen the multilateral financial institutions and regional development banks and funds. To that end his delegation welcomed the impending increases in the World Bank's resources, the eighth replenishment of IDA and the proposal of the Managing Director of IMF for an urgent increase of the resources of the Structural Adjustment Facility. It would also be necessary, however, to encourage private financial flows on favourable terms to debtor developing countries, to mobilize additional resources and to ensure easier rescheduling terms. Since the success of adjustment programmes depended to a large extent on the ability of debtor countries to increase their exports in the medium term, it was impossible to remain inactive in the face of growing protectionism which, by giving impetus to import-substitution policies, created further contractions in world trade and thus lower growth rates. It was important therefore to make the most of the Uruguay Round negotiations so as to ensure global free-trade conditions.

13. The critical economic and social difficulties experienced by Turkey, particularly during the last half of the 1970s, had led to the launching of a new economic programme in the early 1980s which laid more emphasis on liberal and outward-looking policies and had brought encouraging results. Turkey had thus been able to contain its debt burden within manageable limits and to protect itself to some extent against the fall in the real prices of commodities. There was no doubt that whatever the limited results that internal adjustment policies might achieve, a higher sustained rate of global growth, the dismantling of protectionist barriers, increased short-term and medium-term resource flows and lower interest rates were essential in alleviating the debt problem.

14. Mr. SCHLEGEL (German Democratic Republic) said that the problems posed by the external indebtedness of developing countries had not come any closer to a solution in the past year. On the contrary, the situation had deteriorated; one out of two developing countries faced serious repayment problems and a few had even had to reduce or suspend their debt-service payments. There had again been a large outflow of resources to the capitalist industrialized countries and transnational banks - $3.8 billion in the financial year 1986-87, according to the International Monetary Fund. In that context, the report of the Secretary-General on the role of transnational banks (E/C.10/1987/13) clearly pointed to the banks' responsibility for the emergence of the debt crisis.

15. The current debt strategy had led to the aggravation of the problems of developing countries and hence of the international economy as a whole. The drastic structural adjustment programmes imposed on the debtor countries by the

/...

(Mr. Schlegel, German Democratic Republic)

multilateral financial institutions had had intolerable repercussions on large sections of the population. Moreover the efforts of developing countries had been nullified by adverse external factors, such as the extension of protectionist measures, inadequate export earnings, falling commodity prices and demand, and relatively high real interest rates.

16. In his report on the international debt situation (A/42/523), the Secretary-General noted that the debt strategy proclaimed concurrently with the Baker plan had proved inadequate. That had been more or less inevitable, because it had dealt with the symptoms of the crisis rather than the root causes. The external debt crisis was in fact a development crisis. A comprehensive strategy was therefore needed, based on responsibility shared by all the parties concerned and taking account of the situation of the debtor countries, especially in Africa. The strategy must improve the economies of the developing countries and increase their exports, and that required a different external environment, a higher net flow of finance, low real interest rates, faster growth of international trade and easier access to markets. In that connection, the Warsaw Treaty States, at their Berlin session, had advocated a global and just settlement of external indebtedness, which his country fully supported. The solution would, of course, be achieved only through a long and complicated process. An essential pre-condition was the political will on all sides to restructure international economic relations with a view to mutual advantage and on a long-term basis. Viewed from that perspective the socialist States' initiative in the matter of economic security had once again proved its value.

17. The United Nations could and should play a significant role in helping to create favourable international conditions, mobilize all the parties concerned and seek a just and comprehensive solution to the debt problem. His country recommended the following measures: halting the net outflow of resources from developing countries; standardizing international credit terms; increasing the export earnings of debtor countries by lowering protectionist barriers and stabilizing commodity prices; stabilizing exchange rates and democratizing the decision-making process in international financial relations. Such measures could constitute a working agenda for an international conference on money and finance, within the framework of the United Nations or of some other appropriate multilateral organization. The German Democratic Republic supported the proposals of the non-aligned countries and the Group of 77 that preparations for such a conference should begin.

18. Ms. GJESTEBY (Norway), speaking on behalf of the five Nordic countries, said that they supported a growth-oriented approach to the debt problem. The current international strategy consisted of three key elements, namely, continued adjustment efforts in the debtor countries, increased external financing and a more supportive economic environment. There were still a number of weaknesses in that strategy. Economic growth might not be strong enough in the industrialized countries to enable the developing countries to benefit from increased export earnings and make growth-compatible adjustments, while fulfilling their

/...

(Mr. Gjesteby, Norway)

debt-servicing obligations. Multilateral co-ordination activities should be stepped up in order to correct financial and trade imbalances, promote non-inflationary growth, reduce real interest rates and improve market access. The adjustment process affected all members of the international community.

19. Debt problems were proving more persistent than had been anticipated. In spite of their comprehensive adjustment programmes, many debtor countries had not yet regained creditworthiness, nor achieved adequate rates of growth. It was understandable, therefore, that a degree of fatigue was detectable in some countries. Adjustment continued to be necessary, however, and must be accompanied by greater external financing to achieve the combination of a high investment ratio and "adjustment with a human face". Although debt problems were multifaceted and varied from one country or region to another, the general objective of any solution should be to ensure that debt-servicing was in reasonable proportion to the productive capacity of the countries concerned.

20. As far as the middle-income debtor countries were concerned, there had been a dramatic drop in the transfer of resources, particularly with regard to new lending by commercial banks, which could, as the Interim Committee of IMF pointed out, jeopardize current adjustment efforts. The banks clearly had a vital role to play in the debt strategy: together with the debtor countries, they should seek innovative solutions to enable normal business relations to be resumed. Official creditors could not and should not take over the banks' share of financing.

21. The Nordic countries welcomed the innovative financing techniques being used. Since the problem of interest payments remained, creation of an international climate conducive to lower real interest rates would do much to solve the debt problem. It was also necessary to explore, on a case-by-case basis, the possibility of capitalizing interest and other ways of reducing the interest burden.

22. While the participation of private banks in the debt strategy had fallen short of expectations, IMF and the World Bank had continued to play a central role. The international financing institutions must have adequate resources and the Nordic countries therefore welcomed the recent consensus on a general increase in the capital of the World Bank.

23. External indebtedness had particularly serious consequences for the poorer countries, above all those of sub-Saharan Africa. The very poorest of them suffered from an almost complete lack of creditworthiness. In those cases, traditional debt-rescheduling would fail to provide a satisfactory solution, even if combined with drastic adjustment programmes. It was imperative to mobilize additional financial resources and to organize direct action to ease the debt problems of those countries. It was clear from the report of the Secretary-General on the international debt situation (A/42/523) that the international community had been making a major effort in that direction for several months. The Nordic countries had already increased their financial contributions to the international debt-relief programmes or were considering doing so. The World Bank and IMF had also put forth a set of practical proposals.

(Mr. Gjesteby, Norway)

24. The Nordic countries supported the fundamental strategy of those initiatives, namely, to mobilize additional resources sufficient to allow adjustment compatible with growth in per capita income, in a way that was flexible and realistic enough to permit the selective participation of all the industrialized countries. Those measures would not, however, be enough to reactivate growth and make the debt situation more manageable in the worst-affected African countries. Accordingly, the Nordic countries had proposed that the international community should consider establishing an arrangement to be administered by IDA, whereby donor countries would provide the low-income nations with additional resources on a reasonable burden-sharing basis. The arrangement could include assistance in servicing outstanding World Bank loans still burdening countries which had access only to IDA funds. They hoped that the World Bank and the United Nations would continue the quest for debt-relief measures. They looked forward to receiving the report of the Advisory Group on Financial Flows to Africa and were gratified that a substantial increase in resources was being considered for the IMF Structural Adjustment Facility. A prerequisite for the early success of those negotiations was fair burden-sharing based on the participation of a large majority of the donor countries. The balance-of-payments position and the ODA performance of each contributor should be among the criteria for burden-sharing.

25. They fully supported the developments in the Paris Club with regard to extended maturities and grace periods for the poorest, most heavily indebted countries. Such additional measures should be adopted as soon as possible. In particular a multilateral solution must be found to the problem of interest payments on publicly-guaranteed commercial debts. Some of the Nordic countries were in a position to apply concessional interest rates, while the others were considering alternative measures having the same effect. Moreover, bilateral development credits to the poorest countries had already been, or should soon be, converted into grants. All donor countries should adopt similar measures. Resolution 41/202 and the Final Act of the seventh session of UNCTAD were major steps towards a solution to the debt problem. Efforts along those lines should continue.

26. Mr. WANG Baoliu (China) said that the international community had adopted a number of emergency measures to alleviate the debt crisis and prevent the collapse of the international financial system. They had, regrettably, failed to provide a fundamental solution to the problem. Although debtor countries had made a considerable adjustment effort, the two major prerequisites, namely, adequate financial support and a favourable international environment, had not fully materialized. The fact that some countries had announced either a suspension of interest payments or a moratorium on repayment of principal indicated that the debt problem was more than a matter of short-term liquidity. The solvency of those countries was at stake.

27. While it was true that the crisis had been accentuated by certain domestic factors in the debtor countries, it was, to a considerable extent, the result of unfavourable external conditions. Thus, the progressive erosion of the prices of primary products and the protectionist trade policies of the developed countries

/...

(Mr. Wang Baoliu, China)

had made it difficult to enhance debt-servicing ability through the expansion of exports. In recent years there had been a marked drop in resource flows to the debtor countries. That situation had inevitably prejudiced their economic adjustment efforts and their long-term development programme.

28. While it was necessary for the debtor countries to pursue adjustment policies in accordance with their own specific conditions, adjustment was only the means, while development was the end. Any solution to the debt problem must therefore be based on economic development. Both current needs and long-term development objectives had to be taken into account. The practice of requiring austerity policies, even at the cost of sacrificing development, could no longer be tolerated. A dialogue must be initiated among all parties concerned so that they could devise practical measures. For the middle-income heavily indebted countries, possibilities of multi-year rescheduling on preferential terms and reducing the total volume of debt should be explored. For low-income countries, emphasis should be put on the reduction of interest, and even the reduction or writing off of part of their debt.

29. A favourable international economic environment was also required in order to solve the debt problem. The developed countries needed to improve the co-ordination of their macro-economic policies, maintain economic growth, remove protectionist trade measures, improve the terms of trade for developing countries, promote recycling of international surplus funds, increase transfers of resources, and in particular official development assistance to developing countries, lower real interest rates and stabilize exchange rates. The Final Act of the seventh session of UNCTAD and General Assembly resolution 41/202 showed the approach to be taken.

30. Mr. RINKLIF KOFFI (Togo) said that the considerable slump in economic growth compared with the previous two decades, protectionism and deterioration in the terms of trade had aggravated the problem of the developing countries' external debt. The problem was not solely financial but also political and should be treated as such. As the strategy based on growth in the context of structural reforms and increased financial transfers set up in order to solve the problem had not yielded the results hoped for, the strategy should be reinforced: at stake were not only the bank accounts of foreign lenders, but also the lives of millions of men, women and children, threatened by the economic pressures that engendered unemployment, hunger, poverty and deprivation. It was therefore vital that creditors and debtors should begin a dialogue as soon as possible, taking into account the division of responsibilities, interdependence and the right of all to development. It was particularly important for the developed countries to renounce protectionist measures, raise the prices of primary products and lower the excessive interest rates of the debts and debt-servicing.

31. The problem of indebtedness remained one of the main concerns of the African countries which, obliged to devote a considerable portion of their export earnings to debt-servicing, had had to make corresponding cuts in the resources that could be spent on economic and social development. Moreover, the fall in commodity prices and the reduction of foreign capital flows had slowed down growth. UNCTAD,

(Mr. Rinklif Koffi, Togo)

at its seventh session, had examined the destabilizing role played by external debt in the world economy and had proposed the implementation of a set of measures to reduce the debt burden. That proposal was noteworthy, but the main thing would be to attack the problem at its root, i.e., to try to eradicate the structural causes of the debt. In that connection, Togo hoped that the special conference on African debt due to be held at the end of 1987 under the auspices of OAU could help to find ways to solve the problem of long-term external debt.

32. There was no wonder cure for that problem, and countries would not be able to redress the situation unless they united their efforts and acted in concert. The Baker initiative, according to which the creditor countries, the debtor countries and the multilateral financial institutions would work together so that financial flows could ensure an investment upswing and reverse the trend towards the outflow of capital from the developing countries, was worth examining. For the time being, it was vital to lighten the debt burden by rescheduling the debt on more liberal terms, by reducing the interest rates on debt servicing to a reasonable level and, possibly, by writing off the debt once and for all. His delegation congratulated the developed countries which had already begun to apply measures of that kind and had written off developing countries' debts. He hoped that other countries would follow their example. Togo, a country that upheld peace and justice and believed in dialogue, was aware of the scope and seriousness of the external debt crisis and would spare no efforts to make its contribution to a just and effective solution.

33. Mr. GBEHO (Ghana) observed that while external borrowing had in the past been a useful mechanism for transferring capital to under-developed but resource-rich countries for productive investment, the current problems were caused by the conjunction of internal and external factors affecting the capacity of borrowers to service their debts. That was the case of several sub-Saharan African countries whose total debt was estimated at $85 billion, a relatively low figure compared with world indebtedness ($1 billion), but which imposed extremely severe constraints on the continent's development. Debt servicing imposed untold hardship on African countries, whose per capita GDP was generally under $400, at a time when many of them had been carrying out structural adjustment and reform programmes. Domestic investments had therefore had to be sacrificed. It was increasingly difficult for the African countries to fulfil the obligations that they had undertaken with international financial institutions: Ghana was a case in point, with a total debt of $2.7 billion, $750 million of which was owed to IMF. Ways would have to be found to make the burden less onerous.

34. Adjustment with growth stood a good chance of succeeding only if the international economic environment was favourable. The deflationary policies pursued by some of the leading industrialized countries had reduced demand for commodities. That situation was at the root of the African debt problem. Without sufficient export earnings, the African countries were unable to service their debts. It was interesting in that connection that the European Economic Community, on whose behalf the representative of Denmark had spoken, recognized the special responsibility of industrialized countries in creating a favourable economic and trade environment: the responsibilities were shared.

/...

(Mr. Gbeho, Ghana)

35. Despite the far-reaching but politically risky structural adjustment programmes implemented by the African countries, pledges to give assistance had still to be redeemed, a year after the adoption of the United Nations Programme of Action for African Economic Recovery and Development (1986-1990). The Venice summit had furnished the opportunity for certain major countries to make similar commitments, which had not yet been translated into actions either. On the other hand, some industrialized countries had partially cancelled official debts of the least developed and low-income countries. He thanked the British Government, and several other Governments, which had converted part of their ODA loans to Ghana into grants. Similarly, several countries had had their official debts rescheduled over longer periods. The various methods of providing debt relief had, however, remained hesitant and piecemeal, whereas decisive, timely and adequate action was required.

36. The Heads of State and Government of the States members of the Organization of African Unity (OAU) had therefore decided to hold a special summit meeting in November 1987 on Africa's external indebtedness to determine the strategy for securing a lasting solution to the problem. That strategy should include the following actions: conversion by creditor countries of ODA loans into grants; the rescheduling at Paris Club meetings of debts of debtor countries over longer repayment and grace periods; significant reduction of interest rates on guaranteed debt; prolongation of the period allowed for the implementation of stabilization and adjustment programmes in debtor countries; abandonment of standby arrangements with IMF; improvement of the timetable for Paris Club negotations, which were too frequent, and destroyed the creditworthiness of recipient countries by portraying their economies as being in a state of perpetual disequilibrium; and rapid disbursement of amounts pledged at Paris Club meetings. Above all, it was important to increase the flow of development assistance and improve the international economic environment. Only in the context of sustained world economic growth could the debtor countries pay their debts.

37. Mr. HELO (Colombia) said that any strategy to solve the debt problem should be based on the vital need for the debtor countries to promote growth and development. To that end, they must allocate an important proportion of national savings to investment, modernize the production machinery, establish new industries, encourage new exports and show discernment in internal adjustment, in order to avoid a further intolerable deterioration of social services; real human development must have priority in any development plan.

38. The developed countries, for their part, should enable exports from developing countries to find outlets and avoid the imposition of new protectionist measures. Recycling of international capital flows in the form of investments which would make it possible to strengthen the production capacity and increase the gross domestic product would make a useful contribution to solving the problem of long-term debt. A logical relationship should also be established between debt-service payments and the export of goods and services, and criteria should be set for negotiation, taking into account the size of trade balances in the debtor countries.

/...

(Mr. Helo, Colombia)

39. An increase in the capital of the World Bank would also be a particularly useful measure, if it was accompanied by innovative, flexible criteria which would enable the developing countries to profit from their experience in order better to deal with the serious problems of external debt.

40. The new-money packages proposed, consisting in particular in converting the debt into transferable securities which would be sold on a secondary market, or debt-equity swaps, should be studied carefully. The important thing for the developing countries was to obtain a substantial reduction in their commitments to enable them to devote themselves to true development, the benefits from which would be distributed fairly.

41. Colombia had endeavoured to increase its national income, develop its exports, limit its tax deficit and reduce unemployment, in order to create conditions favourable to the establishment of a real social development economy. The protection and advancement of human beings was in fact the best way of establishing an economy aimed at justice and equity.

42. Mr. GROZDANOV (Bulgaria) welcomed the direct involvement of the United Nations in the search for a lasting solution to the problem of indebtedness, which was the focal point of a wide range of issues relating to the social and economic development of countries and to the proper functioning of the system of political and economic relations among States. The problem of external indebtedness was not a short-term liquidity problem but a basic structural problem of the international economic, monetary and financial system which hampered social and economic development. The solution was linked to the adoption of internationally co-ordinated political measures. It was essential to achieve a radical restructuring of international economic relations on an equitable and democratic basis, and to establish a new international economic order based on the idea of international economic security. The solution of the problem of external indebtedness was also linked to the cessation of the arms race and the redirection of the resources thus released for development purposes. Disarmament was a unique method for strengthening peace in both its military-political and material-economic aspects.

43. It was essential to adopt immediately specific measures to alleviate economic tensions in the developing countries: lowering of interest rates on bank loans, limitation of the ratio of debt servicing to a certain percentage of foreign currency earnings from the exports of developing countries, additional relief to the least-developed developing countries, acceptance of the repayment of loans with imports from those countries free from any protectionist restrictions and, above all, the stabilization of commodity prices and the immediate activation of the agreement establishing the Common Fund for Commodities. It was also necessary to adopt immediate measures for restructuring international monetary and financial relations and democratizing the structure and activities of the international monetary and financial institutions: the proposed convening of the international conference on monetary and financial matters, with universal participation, might contribute to that end.

44. Mr. McBARNETTE (Trinidad and Tobago) said that General Assembly resolution 41/202 had enunciated broad principles which should govern the solution of the debt problem, the magnitude and complexity of which were well known. Although the increase in the debt appeared to be slowing down, there seemed to be no real improvement in the debt indicators of the developing countries. The situation varied greatly from one country to another, but the plight of the 15 most heavily indebted countries was particularly critical. Statistics showed clearly that the current strategy was inadequate given the magnitude of the problem, which was not one of short-term liquidity but of longer-term insolvency. While many developing countries had adopted structural adjustment measures at tremendous social and political cost, the external economic environment had not improved and it had been necessary to restrict investment and imports sharply, thus endangering output and future growth. It was imperative to seek without delay a coherent new strategy, including several innovative instruments and above all fresh resources, because the temptation on both sides for unco-ordinationed actions which could disrupt the international monetary and financial systems were tremendous. He hoped that the proposal to triple the resources of the IMF Structural Adjustment Facility would be speedily implemented.

45. The various measures proposed by the commercial banks (the "menu" of money options) especially the debt-equity swaps, repurchase at market discounts and "securitization" of debt, did not constitute an inflow of fresh capital because they had little impact on the totality of the debt. The multilateral institutions could not fill the resource gap and the commercial banking sector was extremely unwilling to resume voluntary lending. Some smaller commercial banks had entered the secondary market in the hope of disposing of their debts. In the absence of essential new resources, the current situation was likely to disintegrate, with repeated breaks in the relations between debtors and creditors which, it must be repeated, would be in no one's interest.

46. While developing countries offered huge markets for developed countries, they could no longer import because they were weighed down by debt and might be forced to tend towards autarky. It should also be remembered that democracy thrived on economic progress and improved living standards, whereas poverty and economic backwardness often went hand in hand with oppression. The new debt strategy, which was essential, should include various elements common to all debtor developing countries, including improved domestic policies, a propitious international environment, and increased net financial flows with the help of the multilateral institutions, which should play a more important and more innovative role.

The meeting rose at 12.20 p.m.