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Summary record of the 10th meeting
Held at Headquarters, New York, on Thursday, 11 October 2001 at 10 a.m.

Chairman: Mr. Seixas da Costa . . . . (Portugal)

Contents

01-57543 (E)

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

Organization of work

1. **The Chairman** said that, in view of the preparations for the International Conference on Financing for Development, he took it that the Committee wished — on an exceptional basis — to consider agenda items 95 (a), (b) and (d) and items 105 and 107 as a cluster. Introductions of reports would be made by the Secretariat, with no debate on the items and with procedural resolutions only.

2. *It was so decided*.

3. **Ms. Kelley** (Secretary of the Committee) introduced the revised proposed programme of work to be issued subsequently as document (A/C.2/56/L.1/Rev.1), which had been drafted following informal consultations.

4. *The revised proposed programme of work was adopted*.

5. Responding to a question by **Mr. Rommasith** (Lao People's Democratic Republic), **the Chairman** confirmed that substantive issues could be raised in procedural resolutions under the rescheduled items.

Agenda item 95: Macroeconomic policy questions (A/56/222-S/2001/736, A/56/306)

(b) International financial system and development (A/56/173 and Add. 1 and 2)

(d) External debt crisis and development (A/56/262)

6. **Mr. Kinniburgh** (Director, Development Policy Analysis Division, Department of Economic and Social Affairs) introduced the report of the Secretary-General on international financial architecture and development, including net transfer of resources between developing and developed countries (A/56/173) and its addenda: a note by the United Nations Development Programme (UNDP) on financial stability and market efficiency: a global public goods perspective (Add.1) and the report of the Secretary-General on information on work undertaken by the United Nations Conference on Trade and Development in support of the promotion of long-term private financial flows, especially foreign direct investment (Add.2).

7. Supplementing information contained in the reports, he said that in 2001, developing countries had been transferring fewer financial resources abroad, primarily owing to the end of the temporary surge in export earnings of fuel-exporting countries. The larger trade deficits — or smaller trade surpluses — resulting from disappointing export earnings explained why the overall demand for external funds by other developing countries was higher than in 2000. At the same time, private funds had been in increasingly short supply, particularly in the three months following submission of the report.

8. Emerging-market equity prices had declined substantially in the first three quarters of 2001 and investor sentiment had become increasingly sour, with growing evidence of a global economic slowdown and associated deteriorating prospects for many developing countries. Although enhanced International Monetary Fund (IMF) assistance to Argentina in August had helped to contain the deterioration of investor sentiment, investment flows to emerging markets had remained subdued, with investors favouring lower-risk investments.

9. A number of factors had also adversely affected direct investment, namely the global economic slowdown, deteriorating corporate earnings, the weakening of economic conditions in developing countries and the decline in privatizations, cross-border mergers and acquisitions in developing countries. That *World Investment Report 2001* prepared by the United Nations Conference on Trade and Development (UNCTAD) addressed that issue, inter alia.

10. Since the 11 September terrorist attack, investor aversion to risk had risen sharply, causing a further deterioration of the short-term outlook for private external capital flows to developing countries and economies in transition. That could emerge as a severe problem in months ahead, if international financial markets and banks were reluctant to extend the new loans that were essential to finance the repayment of maturing liabilities in many middle-income countries.

11. Already, official finance had been the main source of increased financial flows to developing countries in 2001. Following sharp declines over the past two years, net official financial flows to emerging market economies had increased substantially in 2001 as a result of IMF assistance programmes and loan agreements with countries encountering economic

difficulties. Possible difficulties in months ahead could result in a greater need for developing and transition economies to draw on IMF and other official resources. The events of 11 September, moreover, gave added urgency to the need to accelerate reform of the international financial architecture, given the consensus that such measures would improve investor confidence and international financial stability.

12. **Mr. Kregel** (United Nations Conference on Trade and Development) introduced the report of the Secretary-General on the external debt and debt-servicing problems of developing countries, including those resulting from global financial instability (A/56/262).

13. Given recent developments, including rapidly falling growth rates, the increased importance of foreign direct investment (FDI) and portfolio flows had indeed brought potential for greater instability in external payments by developing countries — a possibility envisaged in paragraph 11 of the report. Even before the events of 11 September, the recent cyclical evolution of the global economy had called into question the ability of the enhanced Heavily Indebted Poor Countries Initiative (HIPC II) to put all the countries concerned on a path of sustained growth without additional measures (para. 29). Updating information provided in paragraph 46 of the report, he said that, in the context of the security arrangements in place in the aftermath of the terrorist attacks, there was little question that overall private capital flows to developing countries would be substantially below flows in previous years and hardly above levels at the beginning of the 1990s.

14. The report submitted by the Secretary-General to the fifty-fifth session of the Assembly on recent developments in the debt situation of developing countries (A/55/422) had contained policy proposals for the "rapid resolution" of the debt problems of low-income and middle-income countries with regard to both official and commercial debt. Although some progress had been made in the intervening year, notably acceleration of the HIPC process, problems in most areas remained unsolved. The international policy conclusions to be drawn from the current report (A/56/262) thus differed little.

15. **Mr. Stanislavov** (Russian Federation) said that, in accordance with the new procedure agreed, his delegation's position on item 95 had been submitted to the Secretariat in writing.

16. **The Chairman** said that the text would be distributed to delegations.

The meeting rose at 10.50 a.m.