



SUMMARY RECORD OF THE 19th MEETING

Chairman: Mr. NAVAJAS-MOGRO (Bolivia)

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AGENDA ITEM 83: EXTERNAL DEBT CRISIS AND DEVELOPMENT (continued)

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Distr. GENERAL
A/C.2/43/SR.19
3 November 1988
ENGLISH
ORIGINAL: FRENCH
/...

The meeting was called to order at 10.25 a.m.

AGENDA ITEM 83: EXTERNAL DEBT CRISIS AND DEVELOPMENT (continued) (A/43/647, 184; A/43/235-S/19674; A/43/287-S/19740; A/43/370, 373, 399, 480; A/43/510-S/20091; A/43/538, 587; A/43/667-S/20212; A/43/671, 692 and 709)

1. Mr. RAZALI (Malaysia) noted that the debt crisis of the developing countries was entering its seventh year and that the prospects for an early solution to it were dim. Most of the heavily indebted developing countries had experienced a reduction in the pace of economic growth and a number had even undergone negative growth, and while nearly all of them required additional financial inflow, many were finding it more and more difficult to gain access to international capital markets and to loans from multilateral financing institutions. Several countries had even suffered net outflows of capital amounting to significant proportions of their GDP. The debt crisis was increasingly being recognized as the main obstacle to growth and development not only of the developing countries but also of the developed countries, and one that threatened domestic economies and political structures. Although since 1982 the Western industrial countries had been experiencing an uninterrupted expansion of their economies, growth in most parts of the developing world had shown a systematic retardation which was to be explained by the weakness of commodity prices. Deterioration in the terms of trade had effectively wiped out most of the gains from lower interest rates on debts to commercial banks. Debt servicing had become a heavier burden in 1988 both in Latin America and in Africa. There had been a net outflow of capital from the developing countries of between of \$US 20 billion and \$US 30 billion per year. Thus the World Bank and IMF had become the beneficiaries of a net transfer of resources, of \$US 2 billion in the case of the Bank and \$US 5 billion in the case of the Fund.

2. Several initiatives towards a partial resolution of the debt problem were worth mentioning, among them the Secretary-General's report to the General Assembly (A/43/647) which underlined that the problem had to be resolved through growth, additional finance and domestic reforms, and complemented by various forms of debt alleviation such as debt securitization, buy-backs and interest subsidy schemes; the initiatives launched at the Toronto Summit which had led to agreement in the Paris Club on concessional rescheduling; the decision on the fifth replenishment of the African Development Fund; the creation of IMF's Enhanced Structural Adjustment Facility; the World Bank's special programme of assistance for low-income heavily indebted African countries; positive proposals put forward by Japan and France; and UNCTAD's proposal for a 30 per cent reduction in commercial bad debts by the 15 most heavily indebted countries.

3. All parties involved must embark upon an urgent dialogue to ensure the revitalization of development, and in that respect the United Nations could play a considerable role in seeking a consensus among Governments and financial institutions. The developed countries had shown their interest in bolder measures but much would depend on an improved external environment and it was therefore imperative for the developed countries to renounce protectionism and to liberalize still further trade and access to their markets.

4. Mr. MONTGOMERY (United States of America) said he shared the Secretary-General's desire for a lasting solution to international financial problems, particularly that of debt, and for a rejuvenation of the development process. Co-operation on the part of all Governments and all financial bodies concerned was essential in achieving that goal. That indeed was the spirit of the current international debt strategy, with its emphasis on achieving sustained growth through a case-by-case, market-oriented framework of policy reform and financial support. The strengths of that strategy were its adaptability and its dynamism, since it enabled commercial banks and the Governments of debtor countries to choose from a number of new techniques for reducing debt or debt-servicing, such as debt-equity swaps, exit bonds, securitization and even the donation of debt to charitable organizations for social and environmental use in debtor countries. Those debt conversion techniques had not existed in 1982, and the United States continued to encourage innovative thinking in the development of new financial techniques.

5. The strategy had already achieved concrete results for some major debtors. Some countries, through reforms inspired by the principles of the market economy, had been able to achieve a return to voluntary access to financial markets. For the 15 major debtors as a whole, economic growth had improved substantially since 1983. More efforts should be made to restore the creditworthiness of the indebted countries and to attract additional financial flows. For their part, creditors had shown themselves ready to co-operate. When the Governments of debtor countries had adopted sound adjustment programmes they had been able to obtain additional resources. The World Bank and IMF had committed \$US 25 billion to those countries, in the past two years, while the commercial banks were offering them \$US 17 billion in new money.

6. Nevertheless, serious problems remained. In some countries inflation had undermined progress, while in others there was still need for improved public administration. Fiscal deficits had to be tackled more vigorously. To encourage new equity flows, the indebted countries must persevere in their efforts to reduce institutional and structural rigidities, improve the investment climate and enhance domestic capital formation.

7. The World Bank and IMF had recently reaffirmed that growth was the only solution and that credible and adequately financed adjustment programmes had a major role to play. There had also been a call to broaden further the range of financing options so as to reduce the stock of debt without transferring risk from private lenders to official creditors. The World Bank and IMF must continue to play a leading role in debt management and development finance, since they were the United Nations bodies that were technically competent in such matters. They must therefore remain preferred creditors, and a number of steps had recently been taken to improve their capabilities, such as the eighth replenishment of the International Development Association, the capital increase of the World Bank, the creation of the Compensatory and Contingency Financing Facility of IMF, the enhanced co-financing of World Bank adjustment programmes and the capital increase and replenishment of the African Development Bank and Fund.

(Mr. Montgomery, United States)

8. The needs of the poorest countries of sub-Saharan Africa, especially those which were indebted to official creditors, still held the attention of the international community, which had recently taken action to expand the options for rescheduling their official debts within the Paris Club. That approach provided more generous debt relief by allowing creditors to choose from several options. Donors had taken a number of measures on behalf of the least developed countries which had undertaken adjustment programmes, such as the creation of the Structural Adjustment Facility and Enhanced Structural Adjustment Facility in IMF. Some creditor countries had converted their ODA loans into grants. The International Finance Corporation, for its part, had given relatively little-known but nevertheless innovative assistance to support investment in small and medium-sized enterprises.

9. The United States remained the largest contributor of economic assistance: in 1987, its bilateral assistance had totalled \$6.8 billion, mostly in the form of grants and grant-like flows, while assistance provided through multilateral channels had totalled \$2 billion. The United States was itself facing serious budgetary constraints, and would be unable to increase its assistance in the immediate future; it was therefore concentrating on maximizing the effectiveness of that assistance. The level of overall assistance provided, however, should be determined in the light of available resources, the economic situation of the recipients, or the availability of sound development projects, and should not be calculated on the basis of arbitrary targets for ODA relative to GNP. In the long term, economic development would depend largely on the policies adopted by the country concerned. Governments and institutions thus had a responsibility to establish an environment conducive to sustainable economic growth.

10. Mr. DELPECH (Argentina) said that the burden of debt and debt-servicing had halted growth in many developing countries in Africa and Latin America, had increased unemployment, and had caused per capita gross national product to dip below pre-crisis levels. Above all, it had turned the developing countries into net exporters of resources, thus depriving them of the capacity to provide the investments necessary to revitalize growth and development. For the first time since the end of the Second World War, most countries of the South had not followed the growth of the countries of the North.

11. Argentina had made considerable efforts to meet its external financial obligations, but it did not have to take responsibility for the deterioration in the terms of trade, which was due to the protectionist policies and subsidies practised by the industrialized countries, or for the adverse effect of the international economic situation.

12. The current debt management strategy was a failure. Short-term stabilization programmes generally involved increasingly radical adjustments which, not only hindered the introduction of necessary structural reforms, but also ran counter to the process of modernization. The search for a solution to the problem of indebtedness should give the international community an opportunity to show its solidarity with the indebted countries, but it was essential to approach the problem from a new vantage point and, in particular, to consider a substantial

(Mr. Delpech, Argentina)

reduction in debt-servicing obligations. His country hoped that the new spirit of co-operation which characterized international political relations would extend to the economic field and would lead to fruitful dialogue. There were plenty of ideas; they just had to be put into practice.

13. Mr. BEN MOUSSA (Morocco) said that the Secretary-General of the United Nations, the Secretary-General of UNCTAD and the Chairman of the Group of 77 had dwelt at length on the political message needed to resolve the debt crisis and had put forward the broad outlines of an innovative strategy aimed at reducing the intolerable debt burden. Indeed, the crisis was likely to worsen in the next few years, gathering momentum and thus frustrating the regulatory machinery of the international financial system. A veritable financial cancer, the debt has now reached the astronomical figure of almost \$1,240 billion. In order to improve the debt indicators of the developing countries, it was essential, through concerted international action, to eliminate the numerous obstacles hindering world prosperity, namely the high real interest rates, the slump in commodity prices, the recrudescence of protectionism, the export subsidies, the instability in the exchange rates of the principal currencies, the poor performance of the international monetary system, and the reverse transfer of resources, so as to establish an international environment conducive to growth and development.

14. The developments of the past year - the \$74.8 billion increase in the capital of the Bank, the eighth replenishment of IDA resources, the \$6 billion increase in concessional resources available for IMF's new Enhanced Structural Adjustment Facility the entry into force of the Convention on the establishment of the Multilateral Investment Guarantee Agency (MIGA), the launching of the World Bank's programme of assistance for heavily indebted African countries, the substantial increase in the ordinary resources of the African Development Bank and the fifth replenishment of the African Development Fund, and the establishment, within IMF, of the contingency financing facility - all derived from the determination to improve the existing machinery. The same was true of the measures currently under consideration - increase in assessed contributions to IMF, improvement by the Fund of the system of conditionality and the scope of the Extended Fund Facility, modification by the Fund of the Compensatory Financing Facility, and preparation by the World Bank of a programme for a new financing facility enabling developing countries to benefit from increased assistance in order to protect and improve the environment. All those measures and studies, like the initiatives and proposals of certain developed creditor countries, did not, however, add up to the new approach and new trends referred to in the United Nations by the Secretary-General. The recent decisions of the Toronto Summit aimed at reducing or rescheduling the public debt of low-income countries, particularly in sub-Saharan Africa, as well as the measures taken the previous year to improve the rescheduling arrangements of the Paris Club, were nowhere near commensurate with the immensity of the crisis of the developing countries' external indebtedness. The current strategy and the accompanying initiatives had not achieved the hoped-for results.

15. Against that background, it was worth recalling the conclusions reached by the second consultative meeting of experts from the developing countries, held in Morocco in February 1988. Having emphasized that a worsening of the debt crisis

(Mr. Ben Moussa, Morocco)

would not be in the interest of either creditors or debtors, the experts agreed that, in their current forms, the cross conditionality and structural adjustment programmes were hindering growth and adjustment while exacerbating political and social tensions. They also condemned the practice of annual reschedulings, which led to economic uncertainty and financial instability. Regarding the arrangement for converting debt into investments, the experts from the developing countries stated that, apart from its purely marginal role in debt relief, such conversion in most cases had potentially harmful macro-economic and political implications. Experience showed that secondary markets were of very limited application in reducing the outstanding debt and that the relief they afforded rarely benefitted the highly indebted countries which availed themselves of such markets. Finally, the relief granted on the debt of low-income countries represented only a tiny proportion, 1 per cent to be precise, of the overall debt of the developing countries.

16. It was thus clear that any genuine strategy should take account of certain fundamentals: the political and social dimension of the debt crisis transcended its technical and book-keeping aspects; it was necessary to seek a just and lasting solution based on co-operation and shared responsibility, to define a global approach including currency, financing and trade, to prepare an integrated and coherent international policy based on growth and development, with the developed countries, for their part, carrying out an equitable adjustment parallel to the efforts made by the developing countries to adapt. Similarly, debt-servicing capacity should be compatible with the external financial resources available. An innovative strategy should be based on restructuring and reduction of the outstanding debt and debt servicing of the developing debtor countries, granting of sufficient net additional resources to promote growth and development and improving the international economic situation and, first and foremost improving the international monetary, financial and trading situation, in particular by means of enhanced multilateral monitoring taking duly into account the interests of the developing world.

17. The correlated efforts being made by developing countries in all geographical regions were complementary and formed the basis of enhanced solidarity whose aim was to achieve a just and lasting solution to the problem of their critical indebtedness. Overcoming the external debt crisis required imagination and the political will to adopt, as part of a new mission, an international plan to reconstruct the indebted countries and put them in a better position to participate as partners in world prosperity. Immediate collective action should be encouraged in order to reach a consensus on what was an extremely important question.

18. Mr. RAKOTONAIVO (Madagascar) said that the various analyses of the problem of indebtedness enabled one to make three statements of a general nature. Firstly, the multilateral organizations and official creditors had proposed more initiatives, particularly with respect to the low-income countries of sub-Saharan Africa. Mention might be made of the decisions taken at the Toronto Summit, the creation of special mechanisms by the World Bank and IMF, and the initiatives put forward by the President of the French Republic, the United Kingdom, Japan, the Federal Republic of Germany and Canada. Secondly, in the medium term there was

(Mr. Rakotonaiivo, Madagascar)

likely to be a continuing deterioration of the situation, as reflected in, among other things, the 20 per cent increase in the debt of the developing countries and the increase in the debt-export ratio of the countries of sub-Saharan Africa, which had risen from 93.6 per cent in 1980 to 330.1 per cent in 1986 and 355.4 per cent in 1987. In addition, the debt crisis had assumed social and political dimensions because of cuts in public expenditure, particularly expenditure on human resources, and because of the tensions created between the Governments of debtor and creditor countries by unilateral measures to suspend payments. The present strategy remained inequitable, asymmetric and partial, and served only to emphasize the dependence of the indebted countries. The improvements made to the practices of the Paris Club were inadequate. Not only were the short-term adjustments demanded by the international monetary and financial institutions insufficiently flexible to take account of the special features and priorities of each country, but they were also incompatible with a genuine policy of long-term growth. However, the third statement that could be made was that the search for lasting solutions was still far from the consensus stage. Some of the proposals made by UNCTAD to ensure that the debt burden was compatible with the actual capacity of each country to pay, and to enable them to accumulate sufficient domestic savings to finance sustained growth had given rise to a long debate at the 1988 session of the Trade and Development Board. Serious difficulties had arisen particularly with respect to the measures proposed on behalf of the highly indebted middle-income countries.

19. The future strategy must be based on the sharing of responsibilities and on political dialogue, and must be accompanied by specific measures aimed at ensuring a massive transfer of resources to the developing countries, greater openness of markets, higher and stabler commodity prices, lower real-interest rates, and stabler exchange rates. However, it could not succeed without the support of the Governments of creditor countries and the support of the international institutions.

20. Mr. PINZON (Colombia) said that from the outset the debt crisis had involved significant political elements. The strategy to overcome it rested on the principle that it was a liquidity crisis, whereas in fact it was a solvency crisis that was threatening the world economy as a whole. The bilateral approach having clearly failed, it was high time to act and not leave it to the bankers to settle the principal political problem of the day. Imagination and creativity should be displayed in correcting the serious imbalances in the world economy, which were largely due to the problems encountered by the developing countries in trade and to the resulting reverse flow of resources. Multilateralism should be enhanced in order to find a political response to a problem whose solution required the co-operation of all concerned. Any solution that was considered, however, should be long-term and should necessarily provide for a sizeable net transfer of resources on a continuing basis from the developed countries to the developing countries over the coming decades. The political independence of that transfer should be guaranteed by the multilateral financial institutions. In that connection, he proposed the convening of a world conference, similar to the one held at Bretton Woods, which would bring together representatives of creditor and debtor countries as well as leading academic and financial experts, and would be charged with the task of determining the key elements of the new international

(Mr. Pinzon, Colombia)

financial system. Only under those conditions would it be possible to guarantee the prosperity and well-being of generations to come.

21. Mr. GROZDANOV (Bulgaria) said that the problem of external debt should be examined in the light of its consequences for the social, economic and political situation of the debtor countries and for political stability and security in the world in general. Its solution required the participation of all the parties concerned, both at the international and at the national level. The various plans proposed hitherto had failed because they were not aimed at eliminating the main reason for the exacerbation of the crisis, namely the undemocratic nature of current international economic relations, which were not conducive to the economic and social progress of the developing countries and impeded implementation of the restructuring policies already adopted by many of those countries.

22. The increase in the external debt was also closely linked with the arms race, in which a number of developing countries were now involved. Expenditure on arms was using up considerable resources, and there was no doubt that disarmament for development would release considerable resources and enable the developing countries to resolve a number of problems confronting them, including that of their external debt.

23. Bulgaria was convinced that because of the growing interdependence between countries and between their problems, a long-term solution to the external debt crisis required an in-depth restructuring of the system of international economic relations on a just and democratic basis, and the taking into consideration of such fundamental principles as equality, mutual benefit, stability of development and confidence in relations between States.

24. Mr. LIPSKI (Poland), while welcoming the growing awareness of the gravity of the debt problem, said that it was not sufficient. The problem was such that it required creditors and debtors to improve their relationships, enhance their co-operation and rapidly agree on a concerted plan of action to bring about a just and lasting solution. If one wished to avoid turmoil, and even a complete collapse of the international financial system, and keep the developing countries afloat, it was high time to shift from short-term financial management to a genuine international strategy combining measures fostering development and debt relief, taking due account of the situation, means and socio-economic interests of the developing countries.

25. It was essential to supplement traditional rescheduling techniques, which had hitherto proved largely ineffective, with other measures. It was a question, on the one hand, of reducing and effectively alleviating debt, particularly the debts of the least developed countries and the middle-income countries, and in particular lowering interest rates and increasing financial flows to debtor countries. On the other hand, an economic environment favourable to growth must be created with an international trade system that was more open and non-discriminatory. The United Nations system had an important role to play in that regard. Poland, for its part, had established a debt and development research centre in Krakow which was eager to co-operate with the United Nations and other organizations concerned.

(Mr. Lipski, Poland)

26. Poland was itself heavily indebted and had encountered not only internal difficulties, but also resistance from the triangle formed by IMF, the Paris Club and the World Bank, with each making its aid dependent on agreement between the debtor and the other two. That had prevented Poland from obtaining new credits, affected its exports, compromised its economic reforms and limited its import capacity. Poland's debt continued to grow. While remaining committed to honour its obligations, Poland considered that the only viable solution was that it should be permitted to make structural adjustments and develop its exports, which required a decisive change in the external environment, including the support of multilateral financial institutions.

27. Ms. SHAHIN (Egypt) said that the Secretary-General's personal intervention in the matter of the debt problem was an indication of its gravity. Little progress had been achieved towards finding a solution, and even if the risks for debtors had lessened and international financial disruption had so far been avoided, that was still insufficient. It would be wrong to believe that the social difficulties encountered by debtors were not likely to have world-wide repercussions. The international debt management strategy not only had failed to achieve the resumption of growth and development, but had not ever been capable of supporting, through additional finance or the creation of a more stable international environment, the difficult economic reforms which the developing countries had embarked upon. Those countries had repeatedly reaffirmed that they were ready to fulfil their obligations. Adjustment programmes had had adverse socio-economic effects, which had usually succeeded merely in leading to a recession whose end was difficult to foresee. The favourable statistics of some debtor countries could hardly inspire optimism when one considered the employment situation and the growth and development prospects.

28. The indebted developing countries were, in a sense, caught up in a vicious circle of adjustments advocated not only by IMF, with which agreement was a necessary pre-condition for any further assistance, but also by the World Bank and a number of regional development banks, which increasingly linked long-term development projects to developing countries' acceptance of short-term stabilization programmes. Her delegation therefore strongly supported the idea that the United Nations should contribute more to the debate, consultations, analyses and exchange of information on the international debt situation. It was no secret that the debtor countries, which were much less well-informed than their creditors, negotiated from a position of weakness.

29. It was more important than ever for the United Nations to undertake a comprehensive study of the economic, social and political aspects of adjustment. The General Assembly should give a more comprehensive and political overview of the problem, and avoid confining the issue to its strictly fiscal and monetary aspects.

30. Egypt deplored the deliberate distortion of certain terms. The new concept of "debt reduction" now tended to mean the "conversion of commercial debts into equities", while in fact reduction should mean reducing the stock and servicing of all types of debt for all developing countries. The debt strategy must be recast with that objective in mind, in order to promote adjustment based on economic

(Ms. Shahin, Egypt)

growth and development within the capacity of each country. Likewise, the term "highly indebted middle-income countries" had come to mean countries which were indebted mainly to commercial banks. Consequently, countries like Egypt - which ranked seventh among the indebted developing countries - whose position was no less acute or less painful than that of other countries, were not considered to be highly indebted middle-income countries; nor were they assigned to any other category. It was therefore essential to undertake, as the Secretary-General had requested in his report, an in-depth assessment of the debt problems of countries which had been forgotten - perhaps deliberately, perhaps not, but in any case unjustly.

31. Mr. RAVI (India) said that the debt burden of the developing countries had continued to worsen since 1982. All the experts concurred in their analyses and prognoses, and had predicted a further worsening of the situation of the developing countries, the majority of which remained in a vicious circle of over-indebtedness and increasing poverty. The disproportionate and asymmetrical weight of adjustment had resulted in an unprecedented reduction of consumption and imports and a significant decline in investments and social spending in the debtor countries, with consequences which their populations could not accept and which could be extremely disastrous in the long run if immediate action was not taken.

32. Any debt strategy required the creation of an external economic environment favourable to growth and development. His delegation strongly supported the Secretary-General's appeal to the developed countries to achieve the target of 0.7 per cent of their GNP for total ODA. It was also necessary to increase financial flows and to take urgent action with regard to the ninth review of the quotas of IMF. India had consistently emphasized the importance of allowing the multilateral institutions to assume a bigger role in supporting growth and development in the developing countries. His delegation drew the attention of the Second Committee to an important but neglected aspect of the problem, namely, the need to ensure that the crisis did not spread to the developing countries which had so far been able to manage their debt and which should benefit from increased resource flows on concessional terms.

33. There was an increasing awareness all round of the need to co-operate in giving the debtor countries the means to honour their obligations, and of the need for a significant reduction of the stock of debt. That was the only way of enabling developing countries to regain financial viability and to continue their development efforts. Several interesting proposals had been put forward in that regard, in particular by UNCTAD and by the seven countries which had met recently at Toronto. However much remained to be done to expand the conditions of access and the flexibility of such proposals and ensure not only that the situation of the developing countries was improved in the short and medium term, but that they were not caught in a debt trap in the longer term.

34. The concept of debt reduction should be applied to all developing countries and to all types of debt. An overwhelming proportion of the external debt of many low-income countries was held by official creditors, both bilateral and multilateral, which had a key role to play in reducing that debt. The "menu" of

(Mr. Ravi, India)

options should therefore be enlarged in order to meet the needs of all low-income countries, whose concessional debt should be alleviated. Among the various of measures which could be taken to alleviate non-concessional debt were: debt cancellation, reduced or temporarily-waived interest rates, concessional aid, conversion of external debt into local currency obligations, interest subsidy schemes and refinancing mechanisms.

35. The debt crisis could not be overcome unless the inequities and shortcomings in the international economic system were corrected and concerted action was taken to address the underlying structural problems. The United Nations had an important role to play in that area.

36. Mr. BROWNE (Fiji) said the fact that the Secretary-General had devoted his first address in the Second Committee to the external debt crisis and development clearly demonstrated the extent of the problem. Despite improvements in the world economy, the situation remained grim and, in some cases, desperate for most third world countries. The debt crisis of many developing countries had been exacerbated by their inability to deal with the shock of the oil crisis, the sudden re-ordering of the world economic system, internal and external conflicts, low commodity prices, rising protectionism and the virtual drying up of foreign financing from private sources. Over the past few years, the reverse net transfer of resources had had disastrous effects. Realism, understanding and pragmatism were urgently needed.

37. Significant progress had already been achieved in that respect, in particular at the Toronto Summit, where the leaders of seven nations had agreed to reschedule the official debt of the developing countries within a framework of comparability which allowed official creditors to choose among concessional interest rates on short-term maturities, longer repayment periods at commercial rates, partial write-off of debt-service obligations during the consolidation period, or a combination of those options. The international community should, collectively and realistically, assess the situation of the debtor countries in order to design and put into effect workable schemes to reduce debt and establish long-term strategies for growth and development. The developed countries must play the leading role in that area.

38. The debt problem was not simply an economic problem. The Holy See had recognized the need for a humanitarian approach and had urged people of goodwill to promote the united development of all peoples, thereby contributing to international peace. Commercial banks must not limit their concerns to profitability and security of capital invested, but must play a more significant role in enhancing the efforts of creditors and international organizations to solve the debt problem.

39. A number of interesting proposals had been made, including that of the World Institute for Development Economics Research, according to which Japan would recycle in the developing countries, \$125 billion of the surplus in its balance of payments, at the rate of \$25 billion annually, and recycle \$20 billion over three

(Mr. Browne, Fiji)

years. That would be a more rational use of Japan's savings, would bolster the growth of third world countries, and would reduce developed countries' trade deficits.

40. UNCTAD had called for a concerted effort by the international community to reduce by at least 30 per cent the debt owed to commercial banks by the most heavily indebted developing countries, which was the only way to stimulate long-term growth. That objective would not be achieved unless all countries agreed to implement the resolutions and decisions of the General Assembly and of the seventh session of the United Nations Conference on Trade and Development.

41. The economic situation in the United States had considerable effects on all countries both large and small. Since the United States was the largest recipient of direct foreign investment, it must endeavour to reverse the current trend in order to ensure world economic recovery. There were already glimmers of progress as a result of recent agreements among the major developed market-economy countries.

42. The developing countries should not lose sight of the role that services could play in national development strategies, and should adopt policies which rendered both the service and the manufacturing sectors more mutually supportive in order to enhance income generation. The establishment of a multilateral framework in accordance with the ministerial declaration issued at the end of the Uruguay Round was essential for international trade in services. That framework should cover development issues in toto and not simply provide special treatment for developing countries.

43. Mr. EL GAOUTH (Mauritania) said that, while a glimmer of hope had appeared on the horizon in so far as the settlement of certain disputes was concerned, the lack of tangible progress achieved in respect of non-military threats to international peace and security - i.e. the tragic problems of poverty, famine and indebtedness - was discouraging, despite some commendable and ambitious initiatives taken by the Amir of Kuwait, the President of the French Republic and the seven major industrialized countries at the Toronto Economic Summit. The United Nations had an obligation to help solve the debt problem out of a conviction that, given the danger inherent in a lack of development, the crisis had become, more than ever before, the concern of all peoples and countries.

44. The effects of the crisis were particularly devastating in African countries, which suffered also from numerous natural disasters, including the recent locust infestation. That situation was an alarming one, particularly as so many countries had been affected, and it was important that the international community should realize the magnitude of the problem.

45. The current atmosphere of détente should be used to work towards a reduction of military expenditures that would benefit more pressing economic and social development endeavours. Despite the solemn pledge which the international community had made to the devastated countries of Africa, the mid-term review of the United Nations Programme of Action for African Economic Recovery and Development had shown that much remained to be done, as the debt crisis was still a

(Mr. El Gaouth, Mauritania)

major obstacle to achieving the Programme's goals. The African countries appealed to the industrialized countries to maintain, and in fact increase, their allocation of resources to Africa on concessional terms and to cancel, in so far as possible, the debts of the least developed developing countries. He thanked the Federal Republic of Germany and Canada for having cancelled Mauritania's debt and expressed the hope that other countries would follow that generous example.

46. The trust and collaboration demonstrated by the population as a whole, notwithstanding the sacrifices structural adjustment measures implied, had enabled the Mauritanian Government to develop a new adjustment programme which it had described in detail before submitting it to donors and partners. The Mauritanian Government hoped that donors would engage in a dialogue marked by openness and trust.

47. Mr. SUSIKU (Zambia) welcomed the establishment by the Secretary-General of the Advisory Group on Financial Flows to Africa, which was indicative of a genuine concern for the welfare of the people of Africa; he also associated himself with the foreword to the Secretary-General's report on the external debt crisis and development (A/43/647).

48. The debt crisis had had a devastating impact on the economies of many developing countries. Structural adjustment strategies had created many social and political problems necessitating a search for new approaches that would accommodate local realities. For many African countries, the debt problem continued to be the major obstacle to economic recovery and long-term development.

49. He was pleased to learn from the Secretary-General's report that consultations had produced a convergence of views; he drew the Committee's attention in that connection to paragraphs 6 (a), (c) and (d) of that report (A/43/647).

50. Referring to paragraphs 40 and 41 of the report, he observed that the list of countries benefiting from debt-relief measures seemed too short, being limited to the poorest debtor countries currently undertaking internationally supported adjustment programmes; the policy dealing with the indebtedness of those countries must be developed further and the debt problems of countries that were neither among the poorest nor among the major debtors to international commercial banks should be treated in a different manner. Those countries, whose multilateral debt was relatively high, were faced with a predicament because their debts were ineligible for rescheduling; moreover, if they failed to service them according to schedule, they lost access to further multilateral financing.

51. In view of the debtor countries' considerable adjustment efforts, mentioned in paragraph 69 of the report, flexibility should be exercised in applying criteria to determine eligibility for structural adjustment and IMF assistance with a view to alleviating the adverse social and political impact which the implementation of certain policy reforms could have. To be more effective, adjustment programmes should be designed so as to take the political and social situation of beneficiary countries into account, which would help countries implement such programmes successfully. The Heads of State of the Organization of African Unity had proposed

(Mr. Susiku, Zambia)

the holding of a meeting with creditors on the issue of external debt so that any measures taken might reflect national realities. With the objective of implementing adjustment programmes more effectively still in mind, his delegation supported the Secretary-General's recommendation that the social impact of various policies should be taken into account. Finally, Zambia's own experience confirmed the observation made in paragraph 66 of the report that "experience with adjustment programmes suggests that they rarely succeed without adequate and timely availability of external resources".

52. He concluded by expressing his country's sincere appreciation for the new policy stance adopted by the seven major industrialized countries at the Toronto Economic Summit. His delegation looked forward to the expeditious translation of their various proposals into action with a view to alleviating the debt burden, particularly of sub-Saharan African countries. He urged those developed countries that had not already done so to renew their efforts to achieve, as quickly as possible, the internationally agreed target of 0.7 per cent of GNP for official development assistance as well as the targets set for assistance to the least developed countries. The successful implementation of structural adjustment programmes was in the interest of both debtor and creditor countries.

53. Mr. SY (Senegal) said it would be dangerous if, at a time when détente and the search for mutually agreed solutions were the key feature of international political relations, economic relations were fraught with tension and frustration because the acute problem of debt had not been resolved. An urgent solution to that problem must therefore be a top priority, and all parties should co-operate fully in finding one.

54. The situation of heavily indebted countries had worsened considerably since the outbreak of debt crisis in 1982, as was apparent from the substantial increase in the debt/export ratio in Latin America, the Caribbean and Africa. The increasingly heavy debt burden meant that the economic performance of those regions had been lower than that of other developing countries which were not experiencing such critical debt problems.

55. In spite the efforts and sacrifices they had made in implementing rigorous and demanding structural adjustment programmes, the countries of Africa, Latin America and the Caribbean had experienced nothing but economic stagnation. The international economic environment had posed a formidable barrier which had reduced all their efforts to nought. Inadequate external financial support, unprofitable commodity prices and protectionism had been powerful restraints which had exposed the weaknesses of the current debt strategy. Those obstacles had also had negative repercussions for adjustment programmes, largely because they diverted large volumes of resources exclusively to debt servicing.

56. The social tensions caused by adjustment had in turn been exacerbated. Poverty and unemployment had spread in many heavily indebted countries. Resource constraints had led to decreasing social investments in those countries, resulting in a significant slow-down in human resource development.

(Mr. Sy, Senegal)

57. Another consequence of growing indebtedness was environmental deterioration. Forced to find resources to service their debts, several developing countries had placed greater emphasis on export crops, occasionally to the detriment of their efforts in the areas of reforestation, soil conservation and rationalization of water use.

58. The adverse economic, social and environmental effects of indebtedness were likely to produce tensions that threatened democracy, creditor-debtor relations and the stability of the international financial system. Debt had thus become an eminently political problem. Various initiatives, including those taken at the third Extraordinary Summit of OAU and the Toronto Economic Summit, as well as the proposals made by France, Kuwait and Japan, had contributed to the emergence of a new approach that saw debt reduction as a major factor in any solution of the developing countries' debt problems.

59. The measures taken at Toronto on behalf of low-income countries by the leaders of the seven principal industrialized countries constituted a step in the right direction and ought to be supplemented by other measures on behalf of middle-income developing countries. It would also be desirable for those measures to be rapidly implemented in order to reduce the beneficiaries' debt. Rather than placing emphasis on rescheduling measures, which, experience had shown, had largely worsened the debt burden, special emphasis should be placed on a substantial across-the-board reduction in interest rates and the extension of repayment and grace periods. It would also be useful to consider new forms of debt relief, such as refinancing, and to focus on the question of multilateral debt, which currently accounted for a significant share of the poorest countries' debt. Generally speaking, when formulating and implementing debt-relief measures, creditors should take fully into account the proposals contained in the joint African position on external debt, adopted by the African Heads of State in December 1987 at Addis Ababa.

60. The measures taken by international financial institutions to increase resource flows to the poorest countries were another positive development. The funds mobilized in that way should be disbursed rapidly. Efforts should also be made to reverse the flow of resources from middle-income debtor countries.

61. No durable solution to the debt problem seemed possible if a way of stabilizing the export earnings of countries which relied heavily on commodities was not found. That question should be a major component of the consultations to be held on debt. Likewise, the group of experts on commodities of interest to African countries should be rapidly established.

The meeting rose at 1.10 p.m.