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SUMMARY RECORD OF THE 16th MEETING

Chairman: Mr. NAVAJAS MOGRO (Bolivia)

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The meeting was called to order at 3.10 p.m.

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

1. The SECRETARY-GENERAL emphasized the importance attached by the General Assembly to the debt crisis, which constituted a major obstacle to growth and development throughout the world. The concern expressed to him by heads of State, ministers and senior officials of international organizations and private financial institutions attested to the international community's recognition that the problem must be confronted urgently, imaginatively and with political determination.

2. The debt problem affected growth, not only in the developing but also in the developed countries, and the disparity between them was growing as negative transfers, protectionism and low commodity prices exacerbated the debt burden. Such inequality not only was unjust, but had ominous political and social implications. A downturn in the industrial countries would probably make the debt situation quite unmanageable. Meanwhile, the social costs were becoming acute and the capacity of many developing countries to devote resources to environmental improvement was being severely curtailed.

3. In view of the encouraging economic situation in the industrial countries, it was time for those countries to address the issue with greater determination. He believed that the problem should be resolved through economic growth, additional finance and domestic reforms in the debtor countries, the basic tenet of the existing debt strategy. According to recent studies, however, success could be attained only if bolder measures were taken to alleviate debt and the debt-servicing burden, since only thus could sufficient additional resources be released to finance the instruments needed to revitalize growth and development.

4. Some low-income countries would benefit from recent decisions by the industrial countries reflecting that approach. Additional finance would also be made available to them. In his view, debt and debt service reduction plus additional finance could be required to ensure that adjustment efforts were made in the overall context of growth. Unfortunately, it had not as yet proved possible to reach a political consensus in that respect.

5. Political will was required of those countries that could and should make such an approach successful. The situation was not without precedent: in the aftermath of the two great wars, imaginative formulas had been devised to lighten the debt burden, enabling countries to reconstruct their economies. The reasoning behind them was clear: prosperity would reinforce peace, benefit the world economy and promote better understanding among peoples. The current situation called for courage and imagination, particularly in the prosperous nations.

6. Mr. DADZIE (Secretary-General of the United Nations Conference on Trade and Development) said that the debt problem had been the subject of an intensive process of analysis and consultation within the United Nations system, including the United Nations Conference on Trade and Development (UNCTAD). The experience of

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(Mr. Dadzie)

the past year had shown that the United Nations had an important role to play in the search for durable solutions to that problem, as an integral part of its efforts to promote development and social progress.

7. One of the main premises of the Secretary-General's report (A/43/647) was that an effective solution must have a political dimension, and that determined action was required of all concerned, not least because the debt overhang continued in many cases to be a major obstacle to economic recovery and long-term development.

8. According to the report, the debt problem was not even close to being solved, since economic recovery continued to elude most debtor countries. Furthermore, it was recognized that, in a number of cases, debt problems involved fundamental issues of solvency.

9. A durable solution permitting sustained growth and a revival of development in debtor countries, must explicitly address the imbalances between debt-servicing obligations and capacities. A substantial reduction of debt-service obligations, together with a significant injection of new financial resources to debtor countries, particularly in sub-Saharan Africa, were necessary elements of such a solution.

10. The report outlined various forms of debt alleviation as part of a strategy designed to address the problems of different categories of debtor countries and different types of debt. It also contained proposals for increasing financial flows to debtor countries, and provided policy indications with regard to the adjustment efforts of both debtor and industrialized countries.

11. While the debt strategy had succeeded in preventing a breakdown of the international financial system, the fundamentals of the debt problem remained unchanged. Because of inadequate lending and the failure to improve the external environment, the basic expectation behind the debt strategy, namely, that vigorous domestic adjustment combined with new lending would solve the problem, was no longer tenable. Despite adverse terms of trade, debtor countries had, on the whole, substantially improved their trade balances; however, progress had too often been achieved at the cost of sharply reduced imports and domestic investment, factors which reinforced one another. Furthermore, uncertain growth prospects and inadequate policy implementation made financial institutions reluctant to lend, and resulted in capital flight. In many debtor countries the scope for adjustment was almost exhausted.

12. Growth called for additional external resources. In the case of the poorer debtors, that meant greatly increased bilateral and multilateral concessional flows, together with direct action to reduce debt service. Middle-income countries, which were mainly indebted to multilateral institutions, would obtain considerable relief if their debts could be refinanced on concessional terms or if they could benefit from interest subsidy schemes. Some could gain substantially from the Toronto summit agreement on official bilateral debt. In the case of highly-indebted countries whose debts were largely owed to commercial banks, further borrowing on conventional terms would not help to improve debt indicators

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for the group as a whole. Even if outstanding commercial bank debt were reduced through existing options, the finance released in the short-term would probably be insufficient to support adjustment and recovery. Accordingly, it had been proposed that the menu of options should be complemented by wide recourse to consensual and orderly reduction of interest charges and/or the stock of debt, an approach that would strengthen rather than replace the case-by-case method.

13. In determining whether current policies, if pursued long enough, would yield better results than had been evident so far, UNCTAD had analysed prospects for debtor countries using quantitative models to explore various alternative scenarios. Firstly, it had assumed that the external environment facing developing countries would remain more or less unchanged, and that the debtor countries could intensify their efforts to improve investment efficiency and increase exports. Results showed, however, that per capita income would grow at only one half of one per cent and that it would take several decades to restore the levels of per capita imports and per capita investment achieved in 1980. The main debt indicators would not improve. It would seem therefore that more vigorous action was required.

14. While the outlook with regard to increased lending on the part of commercial banks, was not encouraging - a recent memorandum by the Institute of International Finance had indicated that the demand for bank financing from developing countries exceeded the capacity and willingness of banks to supply it - it could be argued that policy action by creditor Governments, such as the provision of guarantees, could make such lending more attractive to the banks. UNCTAD had therefore examined the consequences of such an increase in commercial bank lending on the assumption that the flow of finance from commercial banks would expand substantially, all other assumptions remaining unchanged. It had concluded that, given current conditions, it might not be possible to deal with over-indebtedness by increasing debt.

15. The third scenario, which assumed that while no new lending would be forthcoming from commercial banks, there could be a once-and-for-all reduction of 30 per cent in the debt owed to them, was constructed to examine whether an alternative policy focus could indicate some way of overcoming current difficulties. Results indicated that the vicious circle of debt-servicing difficulties and low growth could be broken and improved debt-servicing capacity and satisfactory growth achieved, provided that debtor countries intensified their efforts to raise savings and investment, reduce inflation and improve efficiency. Debt reduction was no substitute for domestic policy efforts, but a means of creating the conditions whereby such efforts could be effective. Furthermore, any policy action within that framework should take account of individual requirements, determined on a country-by-country basis.

16. Although debt reduction on that scale should be manageable for commercial banks in general, some individual banks could have difficulties. Some changes in tax and regulatory provisions might therefore be required.

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17. The Conference's debt-reduction proposal was rather conservative and had been constructed along the lines of the current debt strategy. Any viable strategy should bring together a certain number of general principles and establish a framework for action. That involved, first of all, identifying a group of countries which would be subject to the action envisaged. The Baker initiative had identified 15 highly indebted middle-income countries and UNCTAD had, for purposes of discussion, chosen the same group. Secondly, it was necessary to establish a broad order of magnitude for the additional financial flows required for the group of debtor countries which had been chosen, and to identify the sources of those flows. With regard to flows from commercial banks, the Baker initiative had identified an order of magnitude of some $US 20 billion of new flows over three years, and a recent World Bank study had identified $US 6 to 9 billion a year as the order of magnitude of such flows required for highly-indebted countries. UNCTAD had assessed the new flows required from banks at about $US 10 billion annually; that would support an annual growth of per capita income of about 3 per cent. In all three cases, it had been assumed that there would also be lending from the multilateral financial institutions.

18. Another parameter of any such framework was to identify the financial instruments which were to be used to generate the required new flows. In the Baker initiative, new bank lending had been given priority, although other instruments had not been ruled out. UNCTAD's approach identified debt reduction as the main financial instrument which would be required, but did not preclude new lending by commercial banks.

19. UNCTAD's approach diverged from existing policies in two respects. It proposed, firstly, that debt reduction should be the primary means of providing financial support to middle-income debtor countries, and, secondly, was that there should be a significant involvement of creditor Governments in encouraging that development. Those propositions were in line with the need for a continuing evolution of the debt strategy through uninterrupted dialogue and shared responsibility, and with the conclusion that a substantial reduction of debt-service obligations was, apparently, a necessary component of a durable solution to the problem.

20. There was a strong undercurrent of opinion in influential circles that significant evolution in the current conceptual framework was both desirable and, in a sense, inevitable. Those changing perceptions were also reflected in the increased political attention on the part of creditor countries to the question of debt. In particular, the proposals put forward in the name of the Japanese Minister of Finance, in Berlin, and by the President of France in the General Assembly at its current session and pointed to a certain adjustment in the political perspectives of some major creditor countries. Recent developments in official thinking suggested that the need for official action in promoting a more rapid evolution in approaches to the debt problem, including debt reduction, was beginning to gain acceptance. In view of the position taken by some key countries against any shift of risk from the private to the public sector, and given their insistence that debt reduction should be voluntary and market-oriented, the form of such support would have to be more clearly defined.

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21. Mr. GHEZAL (Tunisia), speaking on behalf of the Group of 77, said that external debt was intolerable not only because of its severity and its repercussions but also because it was becoming less and less justifiable from a political and moral point of view. The real causes and the mechanism of debt should be analysed in order to determine precisely the responsibilities of all parties concerned and to divide them in an equitable manner. The Secretary-General's mediation initiative should be conducted at the highest political level in order to arrive at a speedy solution to the problem.

22. The inclusion in the agenda of the General Assembly of the item entitled "External debt crisis and development" had required years of perseverance on the part of the Group of 77 . Despite the heightened awareness of the problem no effective long-term solution had yet been proposed.

23. The Group of 77 felt that urgent measures were required because, as had been recognized at the Toronto Summit in June 1988, the debt problem threatened political stability. The Secretary-General should accord the same importance to the debt problem as to questions of peace and security and should begin broad consultations at the highest level in order to promote a real and lasting negotiated solution. There were already enough studies and analyses. The time had come for the United Nations to take action.

24. Mr. JØNCK (Denmark), speaking on behalf of the Nordic countries, said that structural adjustment in industrialized countries, in the international system and also in developing countries, was essential for a lasting solution to the debt problem. "Adjustment fatigue" was a growing problem which must be taken seriously. Nordic countries called upon the debtor countries to continue their adjustment efforts. While there was no alternative to adjustment, adjustment could be given a human face.

25. The external economic environment had a crucial impact on debt problems, and increased policy co-ordination among industrialized countries was necessary in order to maintain high sustainable growth and reduce international interest rates. Increased efforts were needed to curtail protectionism. The Nordic countries would support a greater liberalization of both international trade and industrial policies affecting the exports of developing countries. The newly industrialized countries should do their part to help reduce global imbalances, and should gradually be integrated into the multilateral trading system.

26. In order for structural adjustment to be successful, substantial external financial support was needed. The overall net transfer of financial resources from some developing countries to their creditors was inconsistent with the agreed approach to the debt problem. At the aggregate level, most kinds of financial flows to developing countries had decreased, while debt-servicing had remained at a high level. While international financial institutions had increased their commitments to developing countries, they could not continue to be the only significant providers of new money to the highly indebted middle-income countries. Other financial flows were essential. The World Bank and IMF could act as catalysts for market-based financing for the middle-income highly indebted countries. For the poorest countries, increased and highly concessional flows were

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(Mr. Jønck, Denmark)

crucial. All donor countries should therefore make every effort to achieve the 0.7 per cent target for official development assistance (ODA) as soon as possible, commercial banks should resume their voluntary lending to the debtor countries, making use of the broadened market-based options, and the debtor countries themselves should adopt credible growth-oriented adjustment programmes.

27. Many of the poorest debtor countries were not in a position to repay their external debt in full. Some of the highly indebted middle-income countries were also facing increasing difficulties in servicing their debt, and debt-relief measures would continue to be required for those countries. Such measures, however, should not transfer risks from private to official creditors. The poorest countries owed more than two thirds of their debt to official creditors, and Governments and international financial institutions must continue to play the leading role in resolving the debt problems of those countries. All creditor Governments which had not already done so should convert ODA loans into grants for the poorest indebted countries. The Nordic countries pledged to provide additional debt relief to the poorest countries within the arrangement recently worked out by the Paris Club for rescheduling officially guaranteed debt. International financial institutions should continue their efforts to enable the poorest countries to service obligations to those institutions.

28. The highly indebted middle-income countries owed about three quarters of their debt to private creditors. Since their long-term ability to pay their debt was greater, emphasis must be placed on market-based solutions. Rescheduling of principal and, as appropriate, interest payments would continue to help alleviate the debt of those countries. The Nordic countries urged debtor countries and their creditors to broaden the menu of market-based and voluntarily negotiated options, combining new money, where appropriate, with techniques which would have the effect of reducing the stock of debt without transferring risks from private to official creditors. The Nordic countries would give careful consideration to the proposals which had been advanced at recent international meetings.

29. While the Nordic countries fully appreciated the difficulties which some countries were having in servicing their obligations to the World Bank and IMF, they believed that solutions to the problems must be found without jeopardizing those two institutions. They therefore encouraged all Member States to treat the World Bank and the Fund as preferred creditors.

30. Mr. YOLAH (Nigeria) outlined the new measures to assist the heavily indebted countries, which had been proposed in recent months as a result of the new awareness of the gravity of the debt crisis.

31. Despite those new measures, there was no call for optimism, since the fundamentals of the debt problem remained unchanged and many debt indicators had deteriorated further in spite of the innovative debt-management measures. In Latin America and the Caribbean the ratio of debt servicing to exports was about 25 per cent higher in 1987 than it had been in 1982, while in the sub-Saharan African countries that ratio had increased by about 50 per cent during the same period.

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(Mr. Yolah, Nigeria)

32. Underlying those statistics was a grim picture of economic stagnation or retardation and, most disturbingly, retrogression in social indicators. Bold and imaginative measures were needed. Instead, some creditor institutions had sought to rearrange their assets through large loan-loss provisions, with a view to reducing the impact of default by the developing debtor countries, and at the same time to reduce their exposure to those countries.

33. The next task in debt/crisis management was debt reduction, and some industrialized nations had recognised the compelling need for it in the case of the low-income countries. The concession needed to be extended to heavily indebted middle-income countries as well, through significant reduction of either principal or interest, or even both, together with longer repayment periods.

34. Serious consideration should also be given to an agreed moratorium on debt servicing, which should not necessarily be confined to the beginning of the debt contract. An integral part of any moratorium agreement, however, should be full commitment on the part of the debtor countries to resume debt servicing.

35. The proposal by the Secretary-General of UNCTAD for a 30 per cent reduction of the commercial debt of the heavily indebted middle-income countries deserved support. The conventional wisdom was that debt cancellation would lead to a lack of prudence on the part of debtors and possibly unreasonable generosity on the part of creditors, but there was no compelling evidence to support that view. The other argument against debt reduction was that it would replace public responsibility with private risk and public funding with private credit. However, to the extent that commercial banks with huge loan portfolios now earned lower profits and so paid less in taxes to their Governments, public revenue was being lost, albeit indirectly.

36. The financial markets were enforcing debt reduction through secondary market discounts of debt holdings. Debt reduction that was based on market-influenced discounts and was voluntarily negotiated would benefit both creditors and debtors and would help reduce the uncertainty currently pervading the international financial markets.

37. For creditor institutions, the benefits of debt reduction would include a substantial decrease in the risk of default, leading to stimulation of voluntary lending and an increase in share prices as market confidence was restored. For the debtor countries, the advantages would include the elimination of the threat of political instability and social unrest, and an acceleration of economic growth. Industrialized nations and commercial banks would also benefit, as the developing debtor nations would be able to increase their imports of goods and services from the industrialized countries.

38. Collective self-interest called for the adoption of courageous, appropriate and innovative measures to deal with the debt problem. The time had come for all to act together.

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39. Mr. LABRUNA (Uruguay) said that the debt crisis had been caused primarily by a deliberate policy designed to use up international banks' surplus dollars. For that reason it had been generally styled a political crisis.

40. Three parties must share responsibility for the debt crisis: the debtors countries themselves, creditor banks and the industrialized countries. The burden of the crisis must therefore be borne by all three parties in an equitable manner.

41. The debt problem had economic, social, political, and environmental implications and must therefore be approached in a comprehensive, global manner. The developing countries did not want their creditors to "forgive" them or to be "generous". Instead, they urged them to be realistic and to acknowledge that, unless dealt with jointly, the debt crisis would overwhelm everyone.

42. Despite the best intentions on the part of debtor countries, the debt could not be repaid for a variety of reasons. In the first place, it was inconceivable that the countries of Latin America could pay roughly $150 billion every five years - a figure that would only increase as new loans were contracted for debt-servicing - without collapsing. The debt could not be paid for economic reasons as well: it was widely known that the debt problem was closely linked to other imbalances in world trade, such as ever-rising interest rates, plummeting commodity prices and cutbacks in imports in favour of debt-servicing, which resulted in declining industrial production.

43. Debtor countries' inability to repay debt was based also on social considerations: debt-servicing had resulted in reduced purchasing power, lower standards of living, growing poverty and inflation. A marked decline in unemployment had been accompanied by a surge in under-employment. Educational expenditures in many Latin American countries had declined in real terms during the 1980s, while access to health care had become more difficult for large segments of the population. Malnutrition among children was spreading and housing was increasingly unavailable. Obviously, debt-servicing had not caused all those problems, but it reduced the likelihood of reversing that situation.

44. The crisis had also contributed to a questioning of the political and social order in Latin America thereby posing a serious threat to the constitutional régimes and the freedoms of citizens throughout the region. Yet one of the most perverse aspects of the debt crisis was the pernicious way in which its adverse effects spread. The curtailing of imports to service external debt had triggered a chain reaction throughout the interdependent international trade system, provoking a short-sighted reaction in the form of protectionist barriers. Thus the debt problem threatened to cancel out the achievements of the Uruguay Round of trade negotiations, which had sought to solve the problem of protectionism. Debtor countries could repay their debt, or service it only if they exported more, something they could not do unless protectionist barriers were removed. Increased exports by debtor countries must not be offset by an increase in imports, nor must there be any increase in the negative transfer of Latin American resources to creditor countries. In any event, debtor countries' capacity to pay would not increase as long as the punitive measures currently applied to them, even though they were attempting to improve their balance of trade, were pursued.

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(Mr. Labruna, Uruguay)

45. In short, vast incongruities existed between the world financial and trade systems, and those disparities were affecting all countries, both developed and developing. Consequently, all parties to the debt problem must work together to find equitable and lasting solutions, and the United Nations must make a constructive contribution to that effort. The report of the Secretary-General was a welcome development in that regard and should be carefully studied by all.

46. Mr. DAZA (Chile) said that the debt problem was the most important problem facing the international community. The Secretary-General's report clearly pointed out that the fundamental characteristics of the problem had not changed and that of the situation of debtor countries had only worsened as they became net exporters of resources.

47. Only a short time before, it had been claimed that the debt crisis would be resolved through a combination of internal adjustment policies and adequate financing to facilitate that process. However, the predicted flow of resources had not materialized and the world economic climate had been unfavourable. The formulas developed to alleviate that situation had been selective and inadequate, and had failed to match the internal efforts made by the very debtor countries they were supposed to help.

48. The search for solutions to the debt crisis could be divided into three distinct phases. The first phase had lasted from 1982 to 1985, during which the problem had been viewed as one involving only debtors and creditors, and thus one to be solved in the marketplace. The second stage had begun in 1985 with the Baker Plan, which had sought to combine adjustment in debtor countries with an increased flow of resources from private banks and the catalytic financing role of international financial institutions. The Baker Plan had led to a significant change in the approach to the debt problem, since it acknowledged, for the first time, the problem's political aspects.

49. The current year had witnessed the beginning of a new phase in the search for solutions to the debt problem, as government and creditor banks increasingly sought to play an active role in that search. It was illustrated by the recent statements made at the Toronto economic summit. For a time it had been held that market forces alone could solve the developing countries' debt problem. However, there were new indications that the burden of responsibility for debt, thus far borne largely by the debtor countries themselves, was shifting. Creditor Governments and agencies must play an even greater role and correct the existing imbalance in the transfer of risk incurred through the assumption of private bank credit. The alleviation of African debt was a step that ought to be followed by others taken, on a case-by-case basis, to help middle-income countries.

50. Chile had tackled its debt problem by means of a stable and coherent economic policy which encouraged free trade and the diversification of exports and stimulated investment. The use of swaps in debt negotiations had allowed Chile to slow its rate of indebtedness and reduce its total volume of external debt significantly. Chile had adapted itself to the existing institutional framework for international negotiations and had strictly complied with its international

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(Mr. Daza, Chile)

obligations. That had not prevented the country from coming up with new instruments which, together with a broad-ranging process of structural adjustment and sustained economic growth, had yielded significant results and brought the ratio of interest payments to exports down to 23 per cent in 1988 from 41 per cent in 1982-1983. As a result, Chile had strengthened its position and improved its creditworthiness. In short, the country was experiencing growth in spite of its debt. It was external factors, such as growing protectionism, high interest rates and reduced access to international financial markets, which threatened that growth.

51. The Secretary-General's report offered interesting solutions to the debt problem, particularly in the case of Latin America. However, progress towards achieving such solutions had been slow as necessary lessons had been learned. While his delegation was not satisfied with the pace of that process, it recognized the need for a realistic approach. There was a growing understanding of the debt situation, which was becoming more symmetrical, and the political component of the debt problem was at last being acknowledged by others. In addition, some debtor countries had undertaken structural changes which had reduced, to varying degrees, the extreme vulnerability apparent during the initial phase of the debt crisis. The fact that significant results had yet to be achieved derived from the fact that the existing system was intended to generate payments rather than sustained growth.

52. Recent proposals to alleviate the debt burden of middle-income countries must not be rejected outright, but should be studied with a view to their possible implementation. Those proposals were consistent with the concept of greater creditor involvement in solving the debt problem. Thus far, only creditor governments had been involved, but the participation of private banks must also be encouraged.

53. Thus, in the fourth phase efforts should be made to elaborate moderate debt-relief programmes, supported by international institutions, for debtors that had made sufficient progress in carrying out structural reform, kept up with interest payments and, in general terms, fulfilled their international obligations. To that end, the instruments currently on the menu of options could be broadened and adequate financing from international financial institutions secured.

54. Mr. AGUILAR (Venezuela) said that the international strategy for resolving the debt problem had resulted in failure. The "case-by-case" strategy for repayment of the external debt, devised by the international financial institutions had left the entire task to the debtor countries. Despite IMF support, very few of the strategy's objectives had been attained. The debt situation persisted and some debtor countries found themselves more in debt than ever.

55. Despite the economic reforms implemented in many countries, success remained illusory at best. Inflationary pressures remained strong and investment depressed, which slowed the pace of structural adjustment in trade and production. The relations between debtors and creditors had grown tenser. The continued stability of the financial system might well be a source of hope but it was difficult to tell how long debtor countries could withstand the situation. The crisis was becoming a

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(Mr. Aguilar, Venezuela)

structural problem which called for greater sensitivity by the international community. Financial institutions were not in danger, but the fate of millions of persons and the stability of political systems were. Banks had virtually been reimbursed for their investment through interest payments, but the increasingly tough economic measures introduced in debtor countries were provoking social unrest.

56. To a large extent, measures to deal with the debt crisis had originated in the international private financial sector. More recent measures ranged from "emergency packages" and individualized debt restructuring plans for various countries to the "Baker initiative" for "a sustained growth programme" and the "menu" through which banks sought to withhold new credits for the purpose of debt management. Gradual debt reduction had been another approach. Many Governments had also put forward ideas which had proved inadequate to the task. However, the initiatives by the international private sector had surpassed those of Governments, whose proposals had not materialized to the same extent.

57. The debtor countries had been virtual "guinea pigs" for a battery of restrictions, transfers, readjustments, etc., and, in the end, their debts had been reduced by an insignificant margin only. Venezuela, for example, had paid approximately $30 billion since 1983 and yet its debt in 1986 had amounted to slightly less than $31 billion. In 1987, debt service had absorbed 46 per cent of its export earnings, and estimates placed the 1988 figure at 60 per cent. Those statistics must be viewed in the light of a 50 per cent decline in exports between 1984 and 1988. In short, what the debtor countries had "gained" was the dislocation of their economic development processes, the onset of violent inflationary pressures, and a reduction in the growth of their gross national products. In addition, investment in priority sectors of their economies had been paralysed, their volume of imports reduced, and their development reversed.

58. It was difficult to comprehend the international community's failure to deal firmly with the urgent problem of global impoverishment. A tendency to focus exclusively on the financial aspects - and not enough on their social and political implications - had been responsible for past failures. For years, the Venezuelan delegation had called for measures that went beyond financial concerns and for an international conference that would lead to monetary and financial arrangements. As the President of Venezuela had said in his statement to the plenary session of the General Assembly, the failure to take timely action could have universal repercussions, just as it had had in the 1930s when more than half the members of the League of Nations had declared a moratorium on their debts.

59. The Secretary-General's report on external debt crisis and development contained a number of interesting proposals. The opportunity to contribute to resolving the crisis must not be lost. Member States could take pride in the recent political achievements of the United Nations, but progress must still be made in the economic field.

60. Mr. TANIGUCHI (Japan) said that despite the efforts of both creditor and debtor countries, international financial institutions and commercial banks, further progress was needed towards reviving the momentum of development in debtor countries and restoring their creditworthiness. The negative net transfer of financial resources continued to be a serious obstacle to development efforts. The flow of ODA from OECD countries had diminished in 1987. "Debt fatigue" seemed to be on the increase in the financial markets, and commercial banks had become even more cautious where new lending to countries with debt-servicing difficulties was concerned. The overall terms of trade of debtor countries had not recovered satisfactorily, although debt-service ratios had fallen slightly and substantial progress had been made in some debtor countries through a case-by-case approach. Japan did not believe that it would be either realistic or effective to seek a comprehensive solution to the debt problem, preferring individual and specific solutions.

61. Every effort should be made to ease the debt burdens of low-income debtor countries further by rescheduling of official debt, removing the burden of ODA loans, and further expanding the grant element in development assistance. Debts owed by low-income debtor countries to multilateral financial institutions were not subject to rescheduling, and Japan therefore welcomed the various initiatives being taken or considered by the World Bank with a view to expanding financial flows to those countries.

62. For middle-income countries, it was essential to promote a market-oriented, growth-oriented strategy on the basis of self-help efforts and with co-operation from commercial banks, Governments of industrial countries and multilateral financial institutions.

63. The scheme to solve the debt problem by writing off 30 per cent of commercial bank debts required further careful study in view of the reactions of commercial banks and the need to avoid transferring risk from them to the public sector. Such cancellation of debt might also worsen the debtor countries' creditworthiness, and their reputation for honouring contractual commitments. Japan appreciated the efforts of the Secretary-General to study the problems of debtor countries whose debt was mostly to official creditors and which were not considered eligible for concessional treatment because of their per capita GNP.

64. Japan had been providing non-project untied grant assistance of approximately $US 500 million over three fiscal years from 1987 to 1989 for sub-Saharan African countries and other least developed countries to meet urgent foreign currency demand stemming from the implementation of economic structural adjustment policies. It had also decided to expand debt-relief measures to alleviate the debt burden of low-income countries. Total repayment for loan aid of approximately $US 5.5 billion committed to the least developed countries between 1978 and 1987 would be refinanced through the provision of grant assistance of the same amount as the repayment.

65. With regard to middle-income debtor countries, Japan was prepared to extend additional financing in the form of untied loans, in parallel with IMF's extended or other arrangements, to be extended on a case-by-case basis in support of

(Mr. Taniguchi, Japan)

medium-term structural adjustment. It had also proposed a new initiative in respect of middle-income debtor countries under which as a first step they would reach agreement with the IMF on a medium-term programme for economic structural adjustment which, it was expected, would be supported by bilateral funds from industrial countries as well as multilateral funds from international financial institutions. Once the programme had been agreed upon, the debtor country and the creditor banks would agree on securitizing some of the debt outstanding and rescheduling the rest under appropriate terms and conditions. In both cases, the certainty of repayment would be enhanced by the debtor countries special reserve accounts, which would be funded by their own resources and held in trust by IMF. The new scheme had to meet three conditions: it must be consistent with the case by case approach; it must be market-oriented, with creditor banks allowed discretion as to whether or not to participate; and it must not entail any transfer of risk from commercial banks to multilateral financial institutions or creditor country Governments. In that connection, Japan appreciated the French initiative for a new scheme to ease debt burdens of commercial loans and would like to study the scheme further.

66. Important measures had been introduced recently by the World Bank, IMF and the African Development Fund to increase financial flows, and Japan hoped that as many eligible countries as possible could present programmes to those financial institutions so as to merit the support of their facilities. It was also imperative to encourage the increased flow of both public and private financial resources from developed countries to debtor developing countries to assist them in their development and debt-servicing difficulties. Governments and international development institutions must take the lead in promoting that flow of financial resources, particularly from the private sector, by providing guarantees against risk abroad. The total flow of financial resources from Japan to the developing countries in 1987 had amounted to $US 20.46 billion on a net disbursement basis, an increase of 40.4 per cent over the 1986 figure, as compared with the 2.6 per cent increase in the total net flow of financial resources from all sources in the world to developing countries. Japan's share of the total net flow of financial resources to developing countries in 1987 had been approximately 24 per cent.

67. Mr. NOGUEIRA-BATISTA (Brazil) said that the central message of the Secretary-General's report had been the need for all indebted developing countries, in the renegotiation of their debt, to be assured of terms and conditions which not only aimed at balance of payments equilibrium but, first and foremost, allowed them to resume growth and development.

68. After seven years a meeting of minds was finally emerging regarding the underlying causes and overall implications of the debt crisis. Everyone had come to realize its lingering, disastrous effects and the inadequacy of the remedies which had been administered hitherto. The most recent annual reports of IMF, the World Bank, the United Nations and UNCTAD had shown a remarkable degree of convergence, agreeing that an efficient way of dealing with the debt crisis must be found without delay, lest recession and increasing impoverishment should drive the debtor developing countries further towards social and political instability.

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(Mr. Nogueira-Batista, Brazil)

69. Serious, unbiased consideration should be given to re-establishing the much-needed balance in world financial relations by paring both deficits and surpluses and by ensuring that the surpluses that would remain in some countries were channelled in more adequate amounts and on more appropriate terms to countries in real need in order to finance their current account deficits and economic growth.

70. The need for high-level consideration of a new approach to the debt crisis was also shared by a growing number of leaders in the business community. The basis for consensus seemed to be emerging, and that consensus must now be turned into specific decisions.

71. Mr. GHEZAL (Tunisia) asked if the Second Committee would hold its traditional informal debate with the multilateral financial institutions. It would be extremely useful to discuss external debt informally while the Secretary-General of UNCTAD was present, and the proposals put forward by France, Japan and other developed countries.

72. The CHAIRMAN said that the Bureau would take up the matter at its next meeting.

AGENDA ITEM 12: REPORT OF THE ECONOMIC AND SOCIAL COUNCIL (continued) (A/C.2/43/L.10)

Draft resolution A/C.2/43/L.10

73. Mr. MARTIN (United Kingdom of Great Britain and Northern Ireland), introducing the draft resolution on prevention and control of acquired immunodeficiency syndrome (AIDS), said that Australia, Finland, France, Iceland, Luxembourg, Malaysia, New Zealand, Poland, Portugal, the Ukrainian Soviet Socialist Republic and Venezuela had also become sponsors. Designed to give further political impetus and direction to the fight against AIDS, the draft resolution identified action to be taken by States and by the United Nations system, in particular the World Health Organization (WHO). As a result of amendements put forward on the course of informal consultations, operative paragraph 1 had been brought into line with the 1988 Economic and Social Council resolution on AIDS and changes had also been incorporated in paragraphs 2, 3 and 4. The draft resolution drew on ideas from resolution 42/8, particularly the consensus language contained in the latter's paragraph 6. The wording "socio-economic and humanitarian aspects of AIDS" in paragraph 5 of the present draft was designed to meet the concerns of a number of delegations. It was to be hoped that the General Assembly would be in a position to decide at its forty-fourth session on the biennialization of the item. His delegation hoped that the text would form the basis for a consensus, reflecting broad agreement on the need to combat the terrible disease.

The meeting rose at 6.30 p.m.