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SUMMARY RECORD OF THE 28th MEETING

Chairman: Mr. GHEZAL (Tunisia)

later: Mr. PAYTON (New Zealand)

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The meeting was called to order at 10.30 a.m.

AGENDA ITEM 84: EXTERNAL DEBT CRISIS AND DEVELOPMENT (continued) (A/44/235; A/44/275; A/44/355; A/44/361; A/44/376; A/44/401; A/44/408; A/44/409 and Corr.1; A/44/415; A/44/477; A/44/551; A/44/617; A/44/628; A/44/683; A/C.2/44/L.8)

1. Mr. WORONIECKI (Poland) said that the persisting problem of external debt not only posed a major obstacle to economic growth for many countries but was also one of the most contentious issues between north and south. Both sides would benefit from an alleviation of the debt burden: it was estimated that a 10 per cent increase in imports by developing countries would produce a 0.7 per cent increase in the gross national product (GNP) of the industrialized nations, stimulating an additional 4 per cent increase in third world exports.

2. Rescheduling was not a lasting solution as most debtor countries would be unable to "grow out" of the debt problem. Instead, developing country debt had to be reduced in order to reverse negative resource flows and to arrest the fall in investment, which had characterized previous years. Co-operative efforts were needed to correct the disparate rates of economic growth for the benefit of all countries concerned, although sacrifices would also be necessary. Urgent action must be taken before the debt crisis erupted into an uncontrollable development crisis. It was therefore essential to ensure that the special session of the General Assembly in 1990 would take purposeful action to achieve the goals of current international debt policy. Attainment of those goals would ensure the revival of growth and exports, restoration of the debt servicing capacity and creditworthiness of debtor countries and a corresponding improvement in their balance of payments. The solution of the debt problem could therefore be qualified as an effort to assist the world economy, and not merely as assistance by the international community to a group of effected countries.

3. The problem of snowballing global debt necessitated swift, co-ordinated and purposeful action, to ensure that the debt crisis did not lead to violence and political disturbances and thereby pose a threat to democracy. Progress had already been made in recognizing the shared responsibility of debtors and creditors; it was now necessary to seek a satisfactory, just and lasting solution to the problem through enhanced international co-operation. The necessary package of policy measures to be adopted by creditors would have to include debt and debt-service reduction, the resumption of capital flows to indebted countries, the creation of a favourable economic environment and the implementation of appropriate structural adjustment programmes by the indebted countries. Such a "debt-cum-development" strategy, with a combined case-by-case and comprehensive approach, should be vigorously pursued in accordance with the relevant resolutions of the General Assembly and resolution 375 (XXXVI) of the Trade and Development Board (TDB), adopted in October 1989.

4. Poland welcomed the Brady plan, which shifted the emphasis in debt strategy to debt reduction, but regretted that the initiative related only to loans made by commercial banks. It was vital to recognize that the problem of debt overhang

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(Mr. Woroniecki, Poland)

should be addressed by debt relief and to concentrate, as the Secretary-General had done in his report, on the need to reduce debt effectively.

5. The initiative should be developed into a comprehensive plan, which would contribute to the revitalization of growth, efficiency-oriented reforms and structural adjustment, leading to a real breakthrough in solving the crisis. Poland concurred with the view of the World Bank, expressed in its 1989 World Development Report, that an acceptable scenario for debt relief, which would encourage investment and a consequent GNP increase in the indebted countries, combined a reduction in the debt burden of the highly indebted countries with the shift in the macro-economic policy mix of the industrial countries. Poland was currently undertaking such an adjustment and was shifting at the same time to a market economy coupled with the political reform and democratization of all domains of social life. Its efforts were being seriously impeded, as the Secretary-General had noted in his report, by an excessive debt-service burden and insufficient fresh lending, leading to the further intolerable deterioration of living standards.

6. Poland was one of the 14 highly indebted countries and therefore expected to be covered by the debt reduction plan, while finalizing the negotiations under way with IMF and the World Bank. It regretted, however, that the plan did not as yet embrace guaranteed debts, and urged that consideration be given to the inclusion of those debts in remedial measures, as recommended in TDB resolution 375 (XXXVI) and in the Secretary-General's report. He proposed also that taxpayers in creditor countries should be given the opportunity to endorse various corrective measures and mechanisms for official debt reduction.

7. His delegation shared the view of the Secretary-General that the debt issue had to be placed in the broader perspective of world development. It urged the Organization to give continued high priority to the global debt problem and to the efforts by all concerned to solve it. As the Independent Group on Financial Flows to Developing Countries had noted in its report, the solution of the debt problem necessitated a long-term pooling of forces by all nations working together in the spirit of genuine co-operation.

8. Mr. Payton took the Chair.

9. Mr. FOLLY (Togo) said that his Government attached great importance to the serious question of external debt and development, which remained the main obstacle to the revitalization of economic and social development in the developing countries. The total foreign debt of the developing countries had grown to $US 1,320 billion in 1988, of which $US 230 billion was owed by African countries.

10. The developing countries depended heavily on the export of basic commodities to finance economic growth and to service their external debt. They had been badly affected, therefore, by the decline in commodity prices; the latter had fallen by approximately one third since 1980.

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(Mr. Folly, Togo)

11. Raw material prices amounted, in real terms, to only 20 per cent of their levels of 25 years before and the international trade in agricultural and mineral products continued to decline while imports of manufactured goods by developing countries were increasing. The contribution of official development assistance (ODA) to the flow of external resources had also declined in real terms, as had the flow of private capital. The private banking sector, which between 1980 and 1982 had contributed 65 per cent of external resources, currently provided 35 per cent.

12. Structural adjustment policies had been conceived as a means of revitalizing growth, but were proving painful to the countries concerned, necessitating the implementation of unpopular measures which could lead to political destabilization. In Togo, the privatization of State enterprises, liberalization of trade, reform of customs duties and tariffs and reduction in public spending had, nevertheless, helped arrest the downward trend of the economy. His Government believed that structural adjustment could succeed only if it was supported by fair prices for the country's principal exports and by policies aimed at protecting human resources.

13. A country's debt repayment capacity depended heavily on its export earnings and necessitated a healthy international economic environment. The situation of the international market for Togo's four main export commodities, namely, coffee, cocoa, cotton and phosphates, was therefore far from encouraging. His delegation welcomed, therefore, the measures already taken or announced by creditor Governments to alleviate the debt burden of a number of developing countries. Careful consideration should be given to the acceleration and simplification of the process of debt negotiation, the possibility of writing off the debts, the establishment of mechanisms for reconversion of the debt and the determination of an amount of assistance which would enable the heavily-indebted countries to service their debts at levels compatible with their repayment capacity.

14. An integrated approach, sensitive to the requirements of sustainable economic development, had to be adopted in seeking solutions to the debt problem. Particular importance was attached, therefore, to the forthcoming special session of the General Assembly, and to preparations for the fourth United Nations development decade, which would provide the opportunities for a close examination of the various proposals by Governments, the options put forward by the multilateral finance institutions and the conclusions of the fifteenth meeting of the Conference of Ministers of the Economic Commission for Africa (ECA) on solutions for the debt crisis.

15. Mr. WANG Baoliu (China) said that the debt problem was a major obstacle to the developing countries' efforts to achieve economic recovery and development, and a cause of increasing concern to the international community. The total debt of the developing countries had reached $US 1,300 billion in 1988, with more than 70 developing countries facing serious debt-servicing difficulties. The heavy debt burden had further worsened the economic conditions of those countries, especially the heavily indebted countries of Africa and Latin America, whose economic growth continued to stagnate. The debt problem now threatened not only the developing countries, but the entire world economy.

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(Mr. Wang Baoliu, China)

16. His delegation had always held the view that a solution to the debt problem called for a sharing of responsibility among all the parties concerned, who had a common interest in seeing a solution and must thus share the losses incurred in the process.

17. His delegation welcomed the shift in emphasis the debt strategy to reduction of the total stock and servicing of debt and provision of new money. It noted that the measures adopted to implement the new debt strategy included the total or partial writing off of the official debt of some low-income debtor countries. However, the new debt strategy needed to be further supplemented and better implemented. In the first place, in order to ensure the effective participation of the international financial institutions in the solution of the debt problem the Ninth General Review of IMF Quotas should see a large-scale increase, and the ninth IDA replenishment should at least match the eighth replenishment. All developing debtor countries should be eligible for debt relief and restructuring facilities, and no new conditionalities should be imposed.

18. Secondly, the developed creditor countries should encourage their commercial banks to make debt reduction arrangements with, and provide new money to, developing debtor countries. They should review their tax, regulatory and accounting procedures so as to eliminate obstacles to the implementation of debt reduction measures by the commercial banks.

19. Thirdly, as the debt problem had different manifestations in different countries, debt reduction measures, while applicable to all debtor countries, should be tailored to the particular needs of individual countries, such as middle-income, low-income and heavily indebted African debtor countries.

20. The underlying purpose of solving the debt problem was to help the developing debtor countries reactivate their national economies. All measures, whether by increasing a country's ability to repay its debt through economic adjustment, or by alleviating its debt burden through debt reduction, should aim at the resumption of economic growth. That should be the yardstick against which to measure the success or failure of the debt strategy. His delegation therefore appealed to the international community to take measures to create an environment conducive to the economic development of the developing countries, and to help them break out from the vicious circle in which they were trapped. With sufficient political will and a practical and flexible approach, the debt problem could be resolved.

21. Mr. NGUYEN Quoc Zung (Viet Nam) commended the Secretary-General's report (A/44/628) for its comprehensive analysis of the external debt problem of developing countries and associated himself with the remarks made on that subject by the representative of Malaysia on behalf of the Group of 77. He welcomed the new initiatives that had been taken since June 1988 to alleviate the developing countries' debt burden; they reflected the desire of creditor countries to work with debtor countries in order to avert a crisis in the international financial system. Nevertheless, those initiatives would not solve the debt crisis. The latter was was in fact a crisis of development which stemmed from the unjust

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(Mr. Nguyen Quoc Zung, Viet Nam)

international relations between developing and developed countries. Its solution required an integrated and comprehensive approach marked by a sense of shared responsibility.

22. A durable solution to the debt crisis must contain several key elements. The first was the establishment of a new international economic order. In addition, debtor countries must be provided with the capital they required to reactivate economic growth and development and must themselves implement correct financial, monetary and economic policies. The flow of financial resources from developing to developed countries must be halted and a favourable international economic environment created by maintaining or increasing commodity prices, stabilizing exchange and interest rates and providing access to creditor country markets. International assistance to debtor countries should be free from political conditions. Last, co-operation and co-ordination should be exercised among commercial banks, international financial institutions and creditor and debtor countries.

23. Mr. SCHLEGEL (German Democratic Republic) said that although numerous solutions to the debt crisis had been proposed, the problem was far from being solved and had in fact grown in magnitude, despite the economic upturn in the developed countries and the growth of international trade. The sheer volume of the developing countries' external debt precluded their economic development: using national income and new loans to repay old debts impeded investment, resulting in continued poverty and underdevelopment. The problem was aggravated by the net transfer of urgently needed resources from developing to developed countries.

24. Sweeping and practical measures to govern the settlement of external debts had yet to be adopted. Structural adjustment programmes had not generated economic growth because they failed to stimulate investment and promote the exports of indebted developing countries. At the same time, such programmes had placed a heavy burden on the societies of developing countries, and particularly on their poorest members. His delegation favoured a solution which took into account both the interests of recipient countries and the requirements for stable development of the world economy. Comprehensive agreements should be adopted as well as specific emergency measures for individual debtor countries.

25. Specific measures that could be taken to alleviate the debt burden included steps to end the net transfer of resources from developing to developed countries and to guarantee stable interest rates. For their part, the developing countries must implement national measures, such as making reductions in military spending, to release resources for economic growth. Adjustment measures with serious social and economic consequences should be renounced. Debtor countries' access to financial resources could be enhanced through the stabilization of international commodity markets, the curbing of protectionist measures in international trade, the release of resources through arms limitation and disarmament, and a general agreement on international measures to put the principle of disarmament for development into practice.

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(Mr. Schlegel, German Democratic Republic)

26. The debt crisis was a symptom of the deficiencies and inconsistencies of the existing international trading, monetary and financial systems. It could not be solved through programmes that were unduly market-oriented. His delegation opposed any proposals that would prolong the developing countries' financing dependence.

27. The United Nations could help to create conditions that would lead to a settlement of the debt issue. The pertinent General Assembly resolutions already provided general guidelines and political impetus for that effort. The world would not be a safe place as long as countries and peoples continued to be burdened by debt. The most important element in the search for a solution to the debt problem was political will.

28. Mr. TELLMANN (Norway), speaking on behalf of the Nordic countries, said that efficient and appropriate measures must be applied if sustained growth and development were to be resumed in debtor countries. Efforts to solve the debt problem to date had mixed results, leading to a reversal of the economic and social progress achieved during the two preceding decades. The recent recognition of debt reduction as an important element in the international debt strategy enhanced opportunities for progress. However, for debt reduction to be efficient, it must be based on strong and consistently implemented adjustment programmes and the full participation and commitment of all the parties concerned.

29. Debtor countries must reform their economies by implementing appropriate macroeconomic stabilization and structural adjustment programmes. Experience indicated that both the design and implementation of such programmes could be improved upon. Adjustment programmes must be tailored to the specific needs of individual countries and take into account the need to protect vulnerable groups from negative consequences. Social programmes were important for long-term economic growth; thus in debtor countries where the public sector faced severe constraints, scarce resources must be used effectively - for example, by striking a balance between military spending and other budgetary allocations.

30. The effectiveness of reform programmes would be greatly enhanced if the international economic environment was more conducive to growth. The economic policies of developed countries must foster the creation of such an environment and the industrialized countries must undertake their own structural adjustments and maintain their economic growth while containing inflation. They must also implement a mix of fiscal and monetary policies that would help to bring down interest rates. They should open their markets to exports from developing countries and alter tax, regulatory and accounting practices in order to encourage debt reduction and lending by private-banks to developing countries.

31. Resource mobilization must be stepped up at the domestic and international levels. The continued outflow of financial resources from heavily indebted countries must be halted, the investment climate in those countries must be improved and greater resources must be channelled into productive investments. Heavily indebted countries must also address the problem of capital flight and

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(Mr. Tellmann, Norway)

attach priority to investment in human development. It was of crucial importance that commercial banks should be involved in increasing external financial flows to debtor countries. At the same time, international financial institutions must be provided with sufficient resources to play their part in the strengthened debt strategy. In that connection, it was to be hoped that an agreement could be reached on the substantial quota increase in the International Monetary Fund before the end of the year.

32. The debt problems of low-income countries must continue to receive priority attention from the international community. The progress which debtor countries had made by themselves and with multilateral and bilateral assistance was encouraging, but adequate levels of concessional financing were still required. He urged all industrialized nations to reach the target of 0.7 per cent of GNP for official development assistance as soon as possible and exressed the hope that the current negotiations on the replenishment of the International Development Association would result in a replenishment that was higher in real terms than the previous one.

33. Concessional rescheduling terms as agreed by creditor Governments at the Toronto summit of the seven major industrialized countries should be offered to all low-income debt-distressed countries undertaking adjustment programmes. While those countries owed the bulk of their debt to official creditors, nearly 30 per cent of their debt-servicing obligations were to private creditors. He therefore welcomed the recent decisions by the World Bank to set aside $100 million of its net income in support of commercial debt reduction in those countries.

34. The problems of low-income debt-distressed countries in Africa were particularly acute, and the Nordic countries would continue to give priority to those countries through, *inter alia*, the World Bank Special Programme of Assistance. The development needs of lower middle-income countries whose debt was mainly to official creditors merited special attention as well. Access to credit markets must also be maintained for those countries that had not yet experienced debt-servicing problems, many of which were implementing rigorous policies that deserved support.

35. Mr. WOLFF (Colombia) said that a genuine solution must be found to the problem of external debt for the continued application of current options would simply condemn debtor countries to backwardness and marginality. The trend towards stagnation in heavily indebted countries in particular also posed a serious threat of political instability.

36. In Latin America poverty and democracy had reached unprecedented levels. While the challenge of maintaining freedom in underdevelopment was peculiar to the countries of Latin America, its solution was a matter for international concern. That solution could only be found in the context of a new dialogue and concerted political action involving debtor and industrialized countries alike.

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(Mr. Wolff, Colombia)

37. There were limits to what could be accomplished through voluntary efforts. Not only did such efforts entail economic hardship, but they constituted a significant drag on the negotiating process. The time had come for a new approach to the external debt problem which would promote economic and social recovery. That approach should accord priority to the legitimate growth needs of developing economies, and include new mechanisms for debt reduction. All parties involved - debtor and creditor Governments, commercial banks and multilateral agencies - must work together to develop a policy that would solve the underlying problem while allowing for a sharing of the burden as equitably as possible. Negotiations must focus on reducing debt service and providing continued financing. In the area of debt reduction, negotiations should result in formulas that would allow debtors to take full advantage of secondary market discounting.

38. There were already market mechanisms in existence which had allowed debtor countries to cancel part of their debts or reduce interest rates by providing equity in the form of local currency, new bond issues, etc. Those schemes had had little effect, however, and some had actually hampered the development of stable monetary and fiscal policies. Debt conversions were even less helpful when the discount did not work in the debtors' favour. One way of reducing transfers would be to conclude agreements that would lower interest rates. Reducing debt-service payments by allowing debtors to benefit directly from discounting through market operations must be accompanied by guarantees of capital and interest if the present value of new issues was to be maintained.

39. The uncertainty generated by the current negotiating strategy could be offset by establishing financial mechanisms for multi-year periods with long-term amortization and interest-payment profiles; creating automatic contingency mechanisms to deal with exogenous factors which encouraged transfers of real resources to other countries; ensuring that new financing from official sources resulted in additional resources for growth and not the substitution of one source of financing for another; introducing flexibility in the financing policies of bilateral and multilateral credit agencies so that a positive transfer of resources towards Latin America could be resumed; rapidly increasing the resources of the Inter-American Development Bank so that it could expand its credit programmes, thereby stimulating positive net transfers. Creditor country Governments must also revise their fiscal, accounting and regulatory provisions to promote debt reduction and stimulate new financing.

40. The adoption of such an approach might take time, but the situation of debtor countries called for urgent decisions, since any delays worked against the interest of creditors as well as debtors. The former became increasingly unsure of their ability to recover their investment, while the latter suffered from economic and social stagnation and an inability to plan for development. In short, so long as the current situation obtained, the highly indebted countries could not meet their obligations. Accordingly, any valid solution implied an acceptance on the part of creditor banks of their losses.

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(Mr. Wolff, Colombia)

41. Naturally, the developing countries themselves must seek to improve their economic situation. The public sector must function efficiently and the private sector must promote investment and increase productivity. While monetary and fiscal discipline were essential, greater emphasis on human development would also help debtor countries face their challenges with confidence.

42. The Secretary-General was to be commended for his efforts to find a solution to the problem. His report was not only objective, but clearly described the limitations of United Nations participation in the search for a solution to the problem. It was, nevertheless, to be hoped that the Organization's influence in that sphere would grow in the near future and that Member States demonstrate greater political will in that search.

43. Mr. DINU (Romania) said that, like most international problems, the current debt crisis had been building up for some time. Its root causes lay deep within the structure of the world economy, which was marked by unequal economic relationships between nations and regions. The crisis had first been perceived as a financial one, then as a major economic crisis. As the debt burden of the developing countries had grown virtually unchecked, despite the various cures prescribed for it by those wielding power, the problem had begun to be viewed as a threat to political and social stability. At the beginning of 1989, the total debt of the developing countries came to some $US 1,300 billion, equivalent to about half their combined GNP and nearly twice their annual export earnings. Annual interest on that debt currently stood at about $US 100 billion. Many countries were unable to cope with the political, economic, financial and social strain of keeping up with their payments. External debt had been a major obstacle to the growth of developing countries in the 1980s, and seemed set to continue as such in the 1990s. One major recent development in the field had been the net transfer of resources from developing countries. It was particularly worrying that the International Monetary Fund and the World Bank were benefiting from that net transfer.

44. The time for remedial action had now come. Many proposals and ideas had been put forward, but the current proposals were still unfair to the developing countries, differing little from those of 1985. However, there were some encouraging signs. It appeared that the principle of debt and debt-service reduction was now largely accepted by the creditor countries. But it was still far from clear what would be the attitude of the commercial banks, which played a key role. The previous month, banks in some developed countries had raised their interest rates by between 0.5 and 1 per cent, thereby adding several billion dollars a year to developing countries' debt-service burden.

45. Romania's President had stated that a global political and economic problem required a global approach and solution. In his view, such a solution should take into account the debtor countries' level of development, their capacity to pay, and the efforts incumbent on them to achieve economic and social progress. In that context, the need to reduce the debt-service burden was of the utmost importance.

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(Mr. Dinu, Romania)

Consequently, interest rates must be brought down to reasonable and stable levels. At the same time, there must be a substantial reduction in the external debt. In some cases, it should be totally written off; the remaining debt should be rescheduled so as to contribute to the resumption of economic growth and the restoration of the developing countries' capacity to pay. It was also necessary to create a favourable external economic environment conducive to the promotion of efficient exports by the developing countries; and to make substantial changes in the current practices of IMF and IBRD in their lending to the developing countries. Overall debt reduction of about 40 to 45 per cent was required to stimulate growth.

46. Furthermore, a global solution should encompass all debtor developing countries. Such a goal could be attained only with the participation of all States in a United Nations sponsored international conference which would establish the steps to be taken by consensus. In that context, his delegation welcomed any steps conducive to the strengthening of the role of the United Nations, and favoured extending the Secretary-General's mandate to allow him to continue his high-level consultations and report back to the General Assembly. Specific recommendations might be included in a future report. The previous year, the Group of 77 had tabled a specific proposal that, in fulfilling such a mandate, the Secretary-General could be helped by a special, technical body composed of eminent persons. His delegation considered that proposal to be still fully relevant to the current external debt problem.

47. Romania's contribution to the debate on the external debt crisis and development also drew on its own national experience. In 1980, its external debt had stood at more than $US 11 billion. Its economy had been burdened by excessive debt-servicing requirements. Romania had implemented a unique policy of debt reduction through the repayment of its outstanding loans, including those to IMF, and had refrained from resorting to new loans. By applying such a strategy, it had gradually succeeded in reducing its foreign debt, which it had finally paid off the previous March.

48. Mr. Ghezal (Tunisia) resumed the Chair.

49. Mr. SAHA (India) said that, at the last count, more than 73 developing countries had been identified by IMF as facing debt-servicing difficulties. Hopes that a favourable turn in the world economic environment might help resolve the problem had receded: the recent phase of growth in the industrialized world had failed to find positive reflection in the highly indebted countries. Indeed, their economic difficulties had worsened. Despite certain initiatives, the intolerable debt burden remained at the centre of the economic crisis afflicting most indebted countries.

50. The negative net transfer of financial resources from the developing to the developed countries had increased from $US 26 billion in 1987 to $US 33 billion in 1988. The phenomenon of negative net transfer extended even to multilateral financial institutions which had been established to provide development assistance.

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(Mr. Saha, India)

51. The current situation was clearly untenable. Developing countries needed to import capital for investment to build up their productive capacities. The adverse situation was made worse by the fact that despite the negative transfers the total stock of developing country debt continued to grow, and had now reached the staggering figure of $US 1,300 billion. According to IMF projections, the chances of the highly indebted developing countries being able to reduce their debt-service ratio significantly in the coming years were slim. To make matters worse, commercial lending had virtually dried up. The seriousness of the situation required that the matter should be addressed, not just in financial or economic terms, but comprehensively, having regard to the social and political consequences of the problem. The haemorrhage must be staunched before the countries affected suffered irreparable social and political damage.

52. In many developing countries, living standards had stagnated or even dropped. Adjustment programmes and stringent associated conditionalities had led to unacceptably high human suffering. Many countries, particularly in Africa, were unable to maintain existing productive capacities. A decline in the prices of developing country exports reflecting their deteriorating terms of trade, combined with increased protectionism in some major industrialized countries, had greatly exacerbated the debt problem. While the indebted developing countries continued to make domestic adjustments at considerable social and political cost, the external economic environment - which depended essentially on the macro-economic policies of the major industrialized countries - remained unsupportive.

53. A major weakness of the current debt strategy was its asymmetrical treatment of the debt problem. Adjustment measures undertaken by the indebted countries at the behest of the international financial institutions had often precipitated a fall in their real incomes. The debtor developing countries were thus required to bear a disproportionate burden of adjustment, while the industrial countries shunned any concurrent adjustment in their own economies. Economic decisions affecting the world community as a whole must be taken collectively, not by a small group of economically powerful countries.

54. The recent initiatives towards debt reduction had proceeded much too slowly due, in part, to the uncertainties of tax, regulatory and accounting policies of the Governments of creditor banks. Adequate debt reduction could not take place without the active involvement of those Governments. In addition to debt reduction, commercial banks also needed to provide new lending as a part of any debt strategy.

55. The problem of the so-called "free riders" must be addressed as a priority. There should be a system of incentives and disincentives to encourage banks to join in the debt and debt-service reduction exercise.

56. A basic weakness of the current debt reduction efforts was that they were severely underfunded and thus could not have a substantial impact on the debt overhang. The international financial institutions must be provided with substantial new resources for that specific purpose, lest existing resources needed

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(Mr. Saha, India)

for development projects in the low-income countries be diverted. Such additional resources as were provided to the international financial institutions must be used to support debt reduction, not simply to allow private banks to transfer risk to them.

57. Any comprehensive solution should include a set of anticipatory and preventive measures so that those developing countries that had thus far managed, at tremendous cost to their people, to comply with their obligations should not be drawn into the debt problem.

58. While global attention had focused on certain highly indebted countries, it must be remembered that the debt-service burden of the poorest countries of sub-Saharan Africa and Asia was particularly heavy in relation to their capacities. For many of them the problem of indebtedness was linked to official debt. Debt service write-offs and reductions in interest rates needed to be much larger than was provided for in the three options contemplated for creditors under the Toronto initiative, the scope of which was limited to the group included in the World Bank's special programme of assistance to sub-Saharan Africa. Low-income debt-distressed countries elsewhere were altogether excluded. The eligibility criteria for such write-offs and reductions should therefore be broadened. The debt-service payments of several countries covered by the new options would still far exceed their current capacity to pay. To alleviate the plight of low-income countries, development finance, particularly on concessionary terms, should be significantly increased. At their recent meeting at Belgrade, the Non-Aligned leaders had called for an early agreement on the ninth replenishment of IDA, the completion as a matter of urgency of the Ninth General Review of IMF Quotas, increased access limits under various IMF facilities, and the easing and more flexible application of conditionality criteria. The IDA replenishment and the quota increase must be substantial, and the share of developing countries in the latter must be raised above existing levels.

59. In the final analysis, resolution of the debt problem could not be separated from the functioning of the international economic system and the long-standing problems facing developing countries. A solution must include addressing the underlying economic and systemic issues, especially in the interrelated areas of trade, money and finance.

60. Mr. LOHIA (Papua New Guinea) said that, as a developing island country, Papua New Guinea was not immune to the external debt crisis. Although Papua New Guinea's external debt was relatively small by international .andards, it was significant in proportion to the country's resources. A careful debt-servicing strategy had enabled successive Governments to manage the debt effectively, and the plan was to reduce its current external debt to a manageable level over the next few years.

61. Papua New Guinea was concerned at the changes and developments taking place in the international arena, especially with regard to the external debt crisis. There was strong evidence that the economic situation, in most indebted countries, in particular Africa and Latin America, had remained stagnant and, in many cases, had

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(Mr. Lohia, Papua New Guinea)

deteriorated sharply. Similarly, investment flows from the developed to the developing countries had fallen dramatically, and the domestic economies of debtor countries faced various forms of disorder. The large budget deficits in many key industrialized countries and the imbalances among the industrialized countries had led to uncertainty and high real interest rates. If appropriate measures were not taken immediately, the global external debt crisis could have a disastrous impact on the entire world.

62. As a member of the Group of 77, Papua New Guinea fully endorsed the recommendations made by the leaders of developing countries at the Ninth Conference of Heads of State or Government of the Movement of Non-Aligned Countries and the Caracas meeting of the Ministers for Foreign Affairs of the countries members of the Group of 77. Papua New Guinea also supported the initiatives announced by the seven major industrialized countries at their summit meeting in Toronto in June 1988 to broaden the range of debt-rescheduling options. While his delegation welcomed the "Brady plan", it believed that the plan should be accessible to all the indebted countries. Papua New Guinea also welcomed similar initiatives which had been taken by individual developed countries, including the Federal Republic of Germany, France, Sweden, Canada, the Netherlands, the United Kingdom and Japan.

63. His delegation was committed to the global initiatives aimed at improving the economic situation, and called on the developed countries and creditors to increase their assistance to the structural adjustment initiatives being undertaken by heavily indebted developing countries. The Committee should review the Organization's current efforts to forge a common understanding on solutions to the debt crisis and should adopt creative and constructive resolutions on that issue.

64. Mr. DEL ROSARIO (Dominican Republic) said that, because of its potential economic, social and political consequences, the indebtedness of the developing countries was an urgent and complex problem. The debtor countries found themselves in a kind of vicious circle: in order to repay their debt, they were obliged to transfer increasing amounts of resources abroad - resources which were essential for their growth and development. Thus, the debtor countries had become exporters of resources to the industrialized countries and international institutions.

65. The developing countries had stated more than once that their debt had reached intolerable proportions and that agreement must be reached on a payment plan which would be more acceptable to their people. There was a need for greater co-operation between the developed and the developing countries, which should lead to better and broader access to developed countries' markets, improved conditions for debt payment, and a greater flow of financial resources to the economies of developing countries.

66. Mr. PAULINICH (Peru) reviewed a number of significant developments relating to the solution of the external debt problem which had taken place since the forty-third session of the General Assembly. Chief among those developments were the proposal made by President Mitterand of France and the Brady plan. Although it was difficult as yet to assess the viability of the latter, his delegation believed

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(Mr. Paulinich, Peru)

that the plan contained serious shortcomings in a number of areas. At the same time, the general recognition of the need for a genuine reduction in the stock and service of debt represented a real breakthrough.

67. Unfortunately, because they had been formulated with a view to defending the interests of creditors, the new proposals had serious limitations. In other words, despite recent progress, the "creditor ideology" still prevailed. New formulas for solving the debt crisis should be sought through the concerted efforts of both the creditor and the debtor countries. In that regard, the United Nations should play an increasingly important role in the search for lasting, shared solutions. In accordance with General Assembly resolution 43/198, the Secretary-General had held high-level consultations with a view to beginning a process which would bring the positions of debtors and creditors closer together. His delegation believed that the General Assembly at its current session should renew that mandate, and proposed that an advisory body should be established in order to assist the Secretary-General in that delicate task. The human and financial requirements would be modest and could be made available, in large part, through internal reassignments within the Organization. The financial implications would there not be excessive.

68. Mr. AL-ERYANY (Yemen), speaking also on behalf of Democratic Yemen, said that the external debt crisis represented a major obstacle to growth and development in all parts of the world. While the problem had had a serious impact on growth in developing and industrialized countries alike, the disparity between them was widening. That disparity could have grave political and social consequences, and the ability of many developing countries to allocate the necessary resources to environmental improvement would be greatly reduced.

69. The true causes of the problem must be examined in order to pinpoint the responsibilities of all the parties concerned. Innovative solutions must be devised as a matter of urgency and action taken before political stability was undermined. The United Nations must accord to the debt problem the same importance it accorded to questions of international peace and security, and wide-ranging high-level consultations must be held with a view to reaching a genuine and durable solution through negotiations.

70. Some of the industrialized countries had acknowledged that there was a pressing need to reduce indebtedness, particularly in the case of low-income countries. That could be achieved through reductions in the stock and service of debt and through modifications in the payments procedures. Such measures would reduce the danger of countries falling into arrears and would stimulate much-needed new lending. For the debtor countries, the danger of political instability and social disturbances would be eliminated, and they would be able to rebuild their economies and expand their imports of goods and services to the consequent benefit of the industrialized countries and the commercial banks.

71. International peace and security were without meaning if millions of human beings were dying of hunger, poverty and disease. Genuine peace and security could only be found in the creation of a just community of all the peoples of the world.

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(Mr. Al-Eryany, Yemen)

72. The two parts of Yemen were hopeful that the forthcoming special session of the General Assembly devoted to international economic co-operation, in particular to the revitalization of economic growth and development of the developing countries, would contribute to the elaboration of a framework for international co-operation in devising durable and comprehensive solutions to the problem. They also hoped that the Second United Nations Conference on the Least Developed Countries, to be held in Paris in 1990, would adopt such decisions as would help to halt the sufferings of the peoples of the developing countries.

73. The two parts of Yemen were endeavouring to pursue an economic policy characterized by stability and concord and to mobilize all possible resources with a view to developing the national economy in such a way as to improve standards of living. The exploitation of natural resources was carried out in a co-ordinated manner by the two Governments so as to ensure their common economic interests and was a basic factor in promoting stability and strengthening the national economy in order to enable it to cope with the pressures imposed by external debt.

74. The two parts of Yemen shared the view of many delegations that an advisory commission on debt and development should be established. There was, moreover, a need to convene an international conference of all the parties concerned, under United Nations auspices, in order to co-ordinate efforts to seek a radical solution to the debt problem.

The meeting rose at 1 p.m.