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New York

SUMMARY RECORD OF THE 20th MEETING

Chairman: Mr. PAPADATOS (Greece)

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(Mr. Sersale di Cerisano, Argentina)

32. Food problems related not only to trade but also to other aspects of the international development strategy, principally agriculture, which was the chief means of revitalizing economic growth during the 1990s, according to the strategy. Policy considerations which should therefore be borne in mind included: access to appropriate technology, pricing policies, the relationship to the industrial sector and, in general, measures affecting the production and distribution of and access to foodstuffs. If those issues were not dealt with in a comprehensive fashion, sustainable development could not be achieved. The reactivation of growth was the principal means of preventing environmental degradation in developing countries and the sole means of forestalling impoverishment in rural areas.

33. He concluded by expressing his delegation's support for the work of FAO, the World Food Programme, the International Fund for Agricultural Development and the World Food Council. He also suggested that the title of the sub-item "food problems" should be renamed "agricultural and food problems"; his delegation was prepared to consider the adoption of a comprehensive resolution on that item in which the question of agricultural and food production in developing countries was the central focus.

The meeting was suspended at 11.35 a.m. and resumed at 12.15 p.m.

AGENDA ITEM 83: EXTERNAL DEBT CRISIS AND DEVELOPMENT (A/45/380)

34. Mr. CRAXI (Personal Representative of the Secretary-General on Debt) introducing his report on the external debt crisis and development (A/45/380) said that the proposals it contained were designed to assist poor, semi-poor and "middle-income" countries in the major regions of the world. As the debt crisis was systemic in nature, a solution must necessarily involve all components of the system - banks, Governments and international financial institutions (IFI).

35. Currently, private debt accounted for only half of the overall long-term debt in the world. The other half, amounting to $466 billion, was owed to official creditors, including approximately $200 billion in IFI loans. Therefore, Governments, first and foremost, had a direct and indirect responsibility concerning official loans.

36. Under the first proposal, the bilateral debt servicing of poor countries would be virtually wrtten off. Ninety per cent of the debt would be cancelled and transferred to States as it matured, so that the burden on the budget of creditor States would be staggered over several years. The remaining 10 per cent would be converted into long-term loans on the terms offered by the International Development Association (IDA) (rate of 2 per cent, 30- or 40-year maturity) and repaid in indexed local currency. The residual amount would be channeled into trust funds, to which indebted Governments, international organizations and non-profit agencies could also contribute. Those funds would be earmarked for economic development, human and environmental protection and improvement, the protection of children and the elimination of drug abuse and drug trafficking.

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37. Similar measures were required for lower middle-income countries - (those countries whose per capita income was between $500 and $1,200) - including the gradual write-off of between 80 and 60 per cent of their bilateral debt service. The same technique, but with smaller reductions, should be applied to the bilateral debts of the middle-income countries. The application of such measures should not represent a loss of more than 0.1 per cent of the gross domestic product of creditor countries.

38. IFIs should increase payment facilities for poor countries by easing current limitations and they should extend similar facilities to lower middle-income countries, and perhaps even to countries undergoing exceptional crises, such as the energy crisis. New life must be breathed into IFIs, so that they could assume a more dynamic role in such areas as adjustment, debt conversion and infrastructural development and the provision of financial support to the Brady Plan as their capacity to grant the required concessions was enhanced. That capacity would be strengthened by the special drawing rights made available as a result of the decision to increase International Monetary Fund quotas.

39. The Brady Plan was a bold step in the right direction but it must be consolidated. More funds must be made available in order to broaden its sphere of action and enhance its effectiveness by adjusting to debtor countries' capacity to pay. Those capacities must be assessed in terms of the ratio between the interest rate payable after debt conversion and the growth rate of GDP. Much more significant discounts on principal and interest than the current 30-35 per cent would have to be offered. Probably, the discount should be between 50 and 60 per cent. To that end it would be important to increase guarantees on residual loans for debt servicing and debt stock. Tax, banking and accounting systems must be favourable to strengthening the Brady Plan. Other measures should include prefinancing in order to accelerate operations and provide an incentive for banks prepared to support the Plan in the short term. Debt buy-back should be contemplated where countries' capacity to pay was very low - either because their per capita income was low or medium-low, or their debt had a low value on the secondary market.

40. On his visits to the world's major banking institutes, he had noted a genuine, and very positive, if many-faceted, interest by Europe, the United States and Japan in the developing countries. That interest must be encouraged and bolstered by measures to reactivate the transfer of capital from the developed to the developing countries. Over the past decade, such capital transfers had been dangerously rare in the private sector. Official multilateral and bilateral financing agencies should implement such measures as cofinancing, insurance guarantees and co-insurance. It would be wise to diversify new funding instruments in order to avoid repeating the mistakes of the past.

41. The debt burden of the 1980s had prevented Latin America and the Caribbean from exploiting their enormous resources. Their overall gross product in the 1980s had increased by only 1 per cent annually, and by 0.1 per cent per capita. Setbacks in growth had hampered their capacity to pay and the debt crisis had fed on itself. A debt reduction and recycling plan, made possible by both official and

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private sources, might serve to level, then reverse, the region's current financial drain of $25 billion annually.

42. Governments must offer possibilities for debt reduction and relief on official bilateral loans, comparable to the measures which commercial banks had accepted as necessary under the Brady Plan. IFIs must address their current zero balance with Latin America between disbursements and payments by granting special facilities similar to those adopted for the poorer countries, but on softer, concessional terms.

43. Concessional aid for infrastructure, "new money" instruments and the diversification of exports were among other major initiatives. Consideration should also be given to allowing certain countries to pay a portion of the interest in indexed, local currency bills, convertible at par value in local properties.

44. In Asia, the debt problem was particularly acute in India, Pakistan and Sri Lanka. In 1989, South Asia's gross domestic product had been $345 billion; it contained 30 per cent of the world's population and half the world's poor. The per capita income was only $280.

45. The growth rate of South Asia's GDP in the 1980-1989 period had been 5.5 per cent. Even so, despite the relative decline in 1989 (4.8 per cent), its development rate was still among the highest in the major areas of the world. According to World Bank forecasts, the poor in south Asia would still number 350 million by the year 2000. Continued attention must therefore be devoted to the debt problem of those countries.

46. Development in south Asia must rest on two pillars: an increase in agriculture commensurate with population growth, and growth in the industrial sector in order to modernize productive structures. In its report, the World Bank had pointed out that progress in Asia depended largely on development in China and India, failing which the prospects for poverty reduction would be much less favourable. Those two countries received little support for their growth and required major assistance in the form of IDA loans for infrastructure and investment subsidies.

47. With 110 million inhabitants, Bangladesh shared the record for poverty with a handful of countries in sub-Saharan Africa. Its per capita income had been $170 in 1988, and in the early 1980s, half the population was living in "extreme poverty", without sufficient food to lead a "reasonably active life". Debt forgiveness proposals for the poor countries must accord priority to Bangladesh. The debt of sub-Saharan Africa currently stood at $145 billion.

48. From 1980 to 1986, the debt burden had driven down the gross per capita income by 3.1 per cent, while consumption had dropped by 2.4 per cent and exports by 2.4 per cent annually in real terms. As a result, the ratio between debt-servicing and exports had deteriorated even further.

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49. At the same time, the 13 per cent deterioration in the terms of trade had pushed up prices and imports had dropped even more - by 7.5 per cent a year, slashing investment, maintenance and consumption. The overall influx of resources, through unsecured aid and multilateral and bilateral loans, had accounted for 7.3 per cent of the GDP - only 2.3 per cent of which had gone towards investment. That had led to a worrying decline in capital accumulation, which had sunk to 17.5 per cent, from 21 per cent, over the course of the 1980s. Failing drastic reductions and extraordinary concessional measures by IMF and the World Bank, the economic problems of the sub-Saharan countries would be insoluble.

50. Because of the interdependence between creditor and debtor countries in the Middle East, that region had been carefully dealt with in his report. Between 60 and 70 per cent of the debt in the region was owed to Governments, which should consider declaring a moratorium for, or restructuring the bilateral debt of, the countries most seriously affected by the crisis. Multilateral organizations must have sufficient liquidity in order to grant moratoriums and take special conversion measures, such as support funds designed to correct imbalances caused by the Persian Gulf crisis and to promote economic recovery. Arab donor countries should consider relaxing certain conditions on their revolving funds as a back-up to bilateral and multilateral measures taken by creditor countries of the Organisation for Economic Co-operation and Development.

51. At the end of 1988, the East European debt had amounted to $100 billion, of which Poland accounted for 40 per cent and Hungary, 20 per cent. In the transition towards a market economy, Poland and Hungary had achieved considerable progress, and bold changes had been initiated in Czechoslovakia in such areas as price planning, exchange rates, the organization of capital markets, labour and services. At the same time, new experiments were being attempted in other Eastern European countries.

52. Strategies for dealing with the debt problem of those countries must avoid a repetition of past mistakes. They must step up the process of rapid and comprehensive transition, relying mainly on commercial finance. Debt with official creditors should be replaced by debt with private sources of finance and direct investments, and encouragement must be given to innovative options for raising new financial resources.

53. It was important to explore the possibility of setting up an eastern European monetary union with the financial assistance of the European Economic Community (EEC), as had been done for Western Europe after the Second World War. The introduction of free trade areas associated with EEC could be much more effective than the granting of large government-to-government concessional loans.

54. The disbursements by donor countries to developing countries had fluctuated around $45 billion over the past decade and had reached $50 billion in 1985, and again a few years later. However, in 1989 there had been an alarming drop. The international community must double its development aid, bringing it up to 0.70 per cent of donor countries' GDP. That was the percentage necessary to allow development aid to reach an acceptable level and to narrow the divide between North

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and South. That would bring the per capita income growth rate up from the 3 per cent average of the last 20 years to 4 per cent.

55. Debtor States must undertake to meet their side of the bargain. First, they must reorder their own public finances by increasing fiscal pressure and not allowing the necessary and due social measures and economic incentives to be dispersed and swollen with indiscriminate welfare procedures and excessive spending. Colossal projects should be avoided and profitability calculated more carefully. State enterprises should be managed as commercial companies with their own profit-and-loss accounts. Where the State economy was too extended, State companies should be completely or partially privatized in order to expand the market economy, open the system to international investment and leave more room for local entrepreneurship and joint ventures.

56. The irresponsible massive export of capital by citizens of indebted countries was inadmissible. Appropriate forms of savings must be developed and protected against inflation; that would attract to the domestic market the capital formed through tourism, migrants' remittances and international trade. That also meant fighting inflation and giving priority to fiscal and income policies over emergency monetarist therapies. Adjustment processes were necessary but should not compress investment.

57. Solution of those complex debt problems required a high-profile leadership and systematic action. What was needed was an agency or a committee within the World Bank and IMF with the support - for each of the major indebted areas, namely, Mediterranean Africa and the Middle East, sub-Saharan Africa, Latin America, Asia and Eastern Europe - of the regional development banks and other multilateral regional bodies, either already existing or to be created. It should be increasingly clear that the future of peace was linked to the prospect of new regional realities based on co-operation between industrialized and developing countries and on respect for the rights and identities of individual peoples.

The meeting rose at 12.55 p.m.