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April 27, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: UNCTAD - Trade and Development Board - Twenty-Eighth Session
and Thirteenth Special Session

Attached for the information of the Executive Directors is a report by the Fund observers on the twenty-eighth regular session and thirteenth special session of the Trade and Development Board of UNCTAD.

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

UNCTAD--Trade and Development Board

Twenty-Eighth Session and Thirteenth Special Session

Report by the Fund Observers 1/

April 26, 1984

1. Introduction and summary

The twenty-eighth regular session of the UNCTAD Trade and Development Board (TDB) was held in Geneva during March 26-April 6, 1984 under the chairmanship of Mr. G. Reisch of Austria. The Board had three major items on its agenda: the interdependence of problems of trade, development finance, and the international monetary system; debt and development problems of developing countries; and protectionism and structural adjustment. While the debate on the first topic--which is routinely included on the agenda of all sessions of the TDB--developed along well-known lines and remained inconclusive, comprehensive discussions on the other two topics led to the adoption by consensus of agreed texts. The first of these texts, which referred to the debt problems of developing countries, reiterated the support of UNCTAD member states for the agreed features for official debt reorganization included in TDB resolution 222(XXI). The second text, which embodied a comprehensive work program on protectionism and structural adjustment, solved one of the most contentious issues which had confronted the organization since UNCTAD VI, namely, the question of monitoring the implementation of the resolution adopted by the Conference on trade matters (Conference resolution 159(VI)).

The Board also held a short special session--the thirteenth special session--to discuss UNCTAD's contribution to the review of an appraisal of the implementation of the International Development Strategy for the Third United Nations Development Decade. Very little progress was made on this issue, however, which had already been examined without result by a high-level group of officials in February. The Board finally decided to forward to the General Assembly for further consideration the proposals tabled by its three regional groups, as well as a few introductory paragraphs on UNCTAD's contribution, on which a measure of agreement had emerged.

Messrs. Carlos Sanson, Jack Barnouin, and Richard Eglin of the Geneva Office attended both sessions of the Board as the Fund observers; this report summarizes the main points of the discussions.

1/ Documents referred to in this report will be on file in the Secretary's Department.

2. Debt and development problems of developing countries

The Secretariat report for this item discussed whether the agreed features included in TDB resolution 222(XXI) had been adhered to in the course of the debt renegotiation exercises undertaken since the adoption of the resolution in September 1980. The report stated that, while the agreed features represented an adequate basis for guiding international action in international debt reschedulings, their full potential had not been realized. Only for a few countries heavily dependent on ODA had it been explicitly recognized that debt problems required "a long-term solution involving sustained efforts to increase the debtor country's productive capacity by means of an investment programme." In other cases, debt relief had been extended for relatively short periods of time and had been linked to use of Fund resources programs geared toward restraining aggregate demand rather than solving the structural problems confronted by the debtor countries. In this regard, the Secretariat went on to say, debt rescheduling exercises should be linked to policy commitments undertaken with the support of World Bank structural adjustment loans (SALs) rather than solely in the context of IMF programs. The Secretariat also criticized that debt renegotiations continued to take place only after the debt difficulties had reached a critical point because they were delayed until the successful conclusion of a program with the Fund. Finally, the Secretariat stressed that the conclusion of bilateral agreements required too long a period during which export credit cover was suspended.

The Secretariat suggested that present institutional arrangements for debt renegotiation should be modified. For the least developed and other low-income countries heavily dependent on ODA, it recommended that debt problems be considered in the context of donor groups, aid consortia, or consultative groups. In these multilateral fora, an action program, including, inter alia, recommendations on the amount of debt rescheduling required, would be formulated for subsequent meetings of the debtor country and its creditors. For middle-income countries, which mostly depend on official or officially guaranteed export credits, the Secretariat proposed that development considerations be examined in special preparatory sessions of the competent creditor clubs. For each country concerned, the findings of the special session should be taken into account by the Fund in its negotiations with the country concerned. The special session should also allow for a somewhat broader participation than is usual in creditor clubs, e.g., attendance by representatives of commercial banks. The debt problems of higher-income countries, dependent primarily on private capital markets, should be examined first by a special tripartite commission involving governments, bank representatives, and international institutions. Such a commission would have a permanent chairman to ensure continuity and facilitate consistency in the analytical approach to different countries. Although its findings would be nonbinding vis-a-vis private creditors, they could be expected to carry considerable weight. The Secretariat recognized that early consideration of a country's debt problems under these new arrangements might have an unfortunate impact if export credit insurers withdrew cover and private banks reduced short-term credit accommodations. The Secretariat therefore suggested that measures be put in place to provide bridging finance, but it did not enter into specifics in this regard.

In the Board discussion of this item, the spokesman for the Group of 77 deplored that, despite his constituents' expectations, the agreed features for official debt reorganization included in resolution 222(XXI) had not contributed to an improvement in the quality of debt relief operations. Since the adoption of the resolution, debt renegotiations had not become more expeditious and timely, they had failed to enhance the development prospects of the debtor countries and to strengthen their underlying balance of payments situation, and they had not helped to restore their capacity to service their debt. Referring to the views held in some official circles that developing countries had borrowed beyond their capacity to repay, and that the current phase of adjustment was indispensable before growth and development could resume, he said these views did not take account of the fact that debt servicing difficulties mainly stemmed from changes in the external environment beyond the control of the developing countries, particularly changes in terms of trade, terms of borrowing, and access to credit markets. His Group, therefore, welcomed the opportunity to engage in a detailed discussion with the developed countries regarding ways and means of ensuring that the agreed features of resolution 222(XXI) were more fully implemented. He stressed that delays in concluding bilateral debt renegotiations affected the restoration of export credit cover, and supported the Secretariat suggestion that bridging finance be made available to ensure continuing access to vital imports. Regarding private debt, he emphasized that the lack of internationally agreed principles and directives for restructuring private debt made it difficult for debtor countries to undertake rescheduling in a way compatible with their development needs. In this connection, he stressed the importance of the Quito Declaration and Plan of Action recently adopted by the Latin American countries.

The representative of the Philippines said the agreed features had failed to achieve their aims because they had not been fully adhered to in recent debt renegotiation exercises, and that development prospects of developing countries had been neglected. The Fund's extended arrangements were an inadequate basis for debt renegotiation exercises, as they focused on traditional demand management accompanied, in certain cases, by ad hoc measures of trade liberalization and production incentives to stimulate supplies. He called on the World Bank to assume a more active role in helping debtor countries by formulating and financing medium-term investment programs. As regards the Paris Club, he said a comprehensive analysis of the debtor country's situation by the World Bank and UNCTAD should be sufficient for the purpose of debt reorganization.

The representative of Brazil said the indebtedness of the developing countries had its roots in factors outside their control, such as deterioration in terms of trade, impediments in exports, and rises in interest rates. Adjustment through rigid contractionary measures was counterproductive, as it subjected societies to unbearable economic pressure. The representative of Cuba said debt renegotiations should be conducted in a manner more consistent with the aims of resolution 222(XXI). To this end, active consideration should be given to the possibility of holding ad hoc preparatory meetings to be attended by the interested parties, including the UNCTAD Secretariat, with the view to examine the medium- and long-term development prospects of the debtor countries concerned.

The spokesman for Group B said the agreed features in resolution 222(XXI) remained an essential point of reference for debt rescheduling operations. Since 1980, the international financial community had made remarkable efforts to adapt to a newly emerging situation, as witnessed by the creation of donor groups, the progress in adapting the terms and conditions of debt renegotiation to the particular situation of each country, and the launching of financial rescue operations of unprecedented size by major debtor countries, multilateral institutions, and creditors. Contrary to the conclusions of the Secretariat, the implementation of the agreed features had been generally very satisfactory. He emphasized that the creditworthiness of the debtor country had to be restored through the successful implementation of an appropriate adjustment program of the kind drawn by countries after consultation with the Fund and the World Bank. As regards the future, creditors and debtors had to improve existing practices for accelerating the conclusion of bilateral agreements after multilateral debt renegotiation, and debtor countries needed to approach the Fund as soon as debt problems emerged.

The representative of the United States said the procedures for resolving international debt problems had been working well, and had been supported by effective economic adjustment by debtor countries, a strengthened role for the Fund, bridging finance from official creditors, new lending by commercial banks, and noninflationary growth and more open markets in the industrial countries. While he was aware that the benefits of the adjustment programs adopted by debtor countries required time to materialize, he urged these countries to persist in their efforts. In this context, he gave an assurance that his country would not push for excessive austerity, which could cause political turbulence and thereby jeopardize its own interests as well as those of the debtor countries.

The spokesman for Group D stated that the heavy indebtedness of the developing countries was due to the transmission of a deep economic crisis in the capitalist countries to developing countries. Their debt problems had been further exacerbated by the imposition of protectionist measures against the exports of the Third World. This, he said, called for the adoption of concrete measures designed to restore and strengthen confidence in international economic relations.

The representative of the World Bank said many of the developing countries facing serious debt problems had pursued domestic adjustment measures with determination, sometimes assisted by the Bank's structural adjustment lending, since these measures were fundamental to the achievement of strengthened creditworthiness and to the resumption of economic and social progress. He expressed agreement with the Secretariat's view that all partners involved in the search for solutions to a given debt problem should keep in mind the need to balance short-term requirements of debt restructuring with a longer term requirement of maintaining and indeed expanding the development potential of the debtor country. The representative of the International Monetary Fund made a statement 1/ to clarify the role of the Fund in recent debt renegotiations.

1/ Copy attached.

After this general exchange of views, the Group of 77 tabled a draft resolution on debt and development problems of developing countries. ^{1/} It called for debt rescheduling exercises to be undertaken in the context of a long-term analysis of the debtor countries' economic and financial prospects; they should ensure that debt servicing did not exceed a reasonable percentage of export earnings consistent with the maintenance of adequate levels of output and employment; they should be accompanied by concrete measures to improve the access of debtor countries' exports to the markets of developed countries through a reduction in protectionism; and they should be accompanied by an adequate and increasing flow of new public and private financial resources. The draft also called for more effective implementation of resolution 222(XXI), albeit without entering into specifics; it called for the accelerated conclusion of bilateral agreements; it recognized the importance of providing, when necessary, bridging finance to developing debtor countries on a predictable, stable, and equitable basis; and it invited creditor countries to draw the attention of private sector creditors to the agreed detailed features as providing a useful framework for the analysis of debt relief requests.

After extensive discussion, a consensus emerged in the form of agreed conclusions regarding debt problems ^{2/} This text recognized the need to analyze the difficulties of indebted countries in the light of both the short-term and longer term character of the problem, and the crucial importance of an expansion of their exports for the maintenance of their development momentum, while at the same time allowing them to service their debt.

3. Protectionism and structural adjustment

Introducing the three Secretariat reports on this subject, ^{3/} the representative of the Secretary-General recalled that, at Belgrade, the UNCTAD member states had agreed to halt and roll back protectionism. While some countries had succeeded in containing protectionism, several major trading countries, including the EEC member states and the United States, had taken actions which clearly ran counter to the commitments entered into at Belgrade. In this regard, he stressed tariff increases, the imposition of new quotas, voluntary export restraint agreements, new import licensing requirements and surveillance systems, and an increase in antidumping and countervailing duty actions. Such developments were the more worrisome as they had taken place alongside economic recovery in industrialized countries which it had been hoped would lessen protectionist measures.

^{1/} TD/B/L.691.

^{2/} TD/B/L.700, attached.

^{3/} "Protectionism and Structural Adjustment. An improved and more efficient safeguard system" (TD/B/978).

"Protectionism and Structural Adjustment. Anti-dumping and countervailing duty practices" (TD/B/979).

"Protectionism and Structural Adjustment. Protectionism and structural adjustment in the world economy" (TD/B/981, Parts I and II).

These protectionist measures had affected the exports of developing countries and severely impaired their debt servicing capacity, forcing them to adopt contractionary domestic economic policies. This reduced their import demand and adversely affected their economic growth by depressing capacity utilization and employment in export-oriented industries. It was thus in the interest of both developing and developed countries to launch a major liberalization effort specifically geared to the trade needs of the Third World. A key component of any such liberalization effort, he said, was the acceleration of appropriate structural adjustment in industrialized countries by phasing out aid to ailing sectors and providing incentives for investment and labor absorption in sectors where these countries could foresee a comparative trade advantage.

Regarding specific trade measures affecting developing countries, he stressed that there had been a dramatic increase in the application of antidumping and countervailing measures in industrialized countries. In many cases, these measures were being misused to provide protection for declining industries against more competitive producers in developing countries. Initiation of antidumping and countervailing duty investigations resulted in immediate, severe losses to foreign exporters, who often accepted voluntary export restraint arrangements in return for the termination of the investigation. This was especially true of developing country exporters who lacked the technical and financial means to challenge investigations in the industrialized countries. The representative of the Secretary-General called on the developed countries to promptly carry out the review of their antidumping and countervailing duty procedures agreed at Belgrade, in order, inter alia, to tighten requirements for initiating antidumping and countervailing duty investigations, and to provide differential and more favorable treatment for the developing countries.

Finally, regarding improvements in the regulatory system for safeguard measures, the representative of the Secretary-General said multi-lateral agreement had still not been reached, even after ten years of negotiation; negotiators had lost track of their primary objective--to further trade liberalization--and were now examining the reform of the safeguards system in order to legalize voluntary export restraints and other grey area measures. To achieve a breakthrough, he suggested a differentiation between measures designed to provide industry with temporary relief, for which Article XIX of the GATT applied, and those intended for industries whose international competitiveness was declining and for which structural adjustment policies were of paramount importance.

The spokesman for the Group of 77 deplored the failure of the recovery in industrialized countries to produce any rollback in protection. He also complained that trade harassment was taking place on a large scale through increased reliance by industrialized countries on antidumping and countervailing duty practices. He regretted that negotiations to improve the regulation of safeguard measures seemed hopelessly bogged down because of confusion between two distinct issues, namely, temporary protection for otherwise healthy industries, and the structural problems of senile industries which could only survive with permanent protection. There was thus ample justification for the Board to carry out a substantive review of the prevailing situation in international trade.

The representatives of Bangladesh, Brazil, Colombia, Cuba, Egypt, India, Indonesia, Iraq, Malaysia, Mexico, Pakistan, Peru, Romania, Senegal, Singapore, Sri Lanka, Syrian Arab Republic, Thailand, Tunisia, and Yugoslavia intervened to support the Group of 77 spokesman's statement and air specific grievances. Most complaints were directed at the implementation of the Multifibre Arrangement, trade harassment through antidumping and countervailing actions, and the imposition of voluntary export restraints and other grey area measures. Several speakers said developing countries with pressing debt servicing problems were caught up in an increasingly harmful and vicious circle because of the proliferation of protectionist actions against their exports. Some also stressed that it was illogical for developed countries to introduce protectionist measures against imports from developing countries after urging for decades that developing countries should adopt outward-looking development strategies.

The spokesman for Group B said trade prospects had improved recently as a result of economic recovery, particularly in North America and, to a lesser extent, in Japan. World trade had increased by 2 percent in volume in 1983, and was projected to expand by 4.5 percent in 1984. Nevertheless, he emphasized the importance of opening markets to further assist trade expansion. In this context, several Group B countries had adopted trade liberalization measures, including tariff reductions, increases in quotas, and the maintenance, improvement, and extension of national schemes of preferences. They were also examining the possibility of accelerating the successive stages of tariff cuts agreed at the Tokyo Round. Turning to the future work program of UNCTAD, he said Conference resolution 159(VI) had established an appropriate mechanism to follow up developments in world trade and, when necessary, to formulate recommendations on general problems of protectionism and structural adjustment.

The spokesman for the European Communities said that the Communities remained committed to an open and multilateral trading system and were ready to accelerate the tariff reductions agreed upon in the Tokyo Round. He further said the Communities intended to participate actively in the formulation of UNCTAD's future work program in the field of protectionism and structural adjustment. Such a program, however, should fully take account of the work done in the GATT. The representative of the United States said that her Government was currently looking at ways to promote the mutual liberalization of trade. She felt the annual UNCTAD review of protectionism and structural adjustment could make a useful contribution to such liberalization efforts. However, the Secretariat review of antidumping and countervailing practices went beyond the scope of Conference resolution 159(VI). This resolution, she recalled, stipulated that the responsibility for undertaking such a review fell on the developed countries rather than the Secretariat.

The representative of Canada said the Secretariat had not been asked to review antidumping and countervailing duty practices by UNCTAD VI, and he disagreed that actions in this field were essentially protectionist. There might be a tendency to use such actions for this purpose, but they were primarily applied to counter the injurious effects of dumping or

subsidizing. He regretted that the Secretariat report had neglected the useful work on safeguard problems under way in GATT, especially on grey area measures. The representative of Australia agreed with the Secretariat that protectionist measures, particularly of a nontariff nature, had proliferated in the past year. He also agreed with the main thrust of the Secretariat report on safeguards, but stressed that it would be inequitable to tighten control over GATT Article XIX actions without bringing grey area measures under strict multilateral discipline. However, he had reservations on the Secretariat's analysis of antidumping and countervailing duty practices, as it seemed to suggest that subsidization and dumping practices were a legitimate part of development and trade policy. The representative of Japan emphasized that it was vital that the TDB reach some agreement on the UNCTAD work program in the field of protectionism and structural adjustment in order to protect the credibility of the institution. With respect to structural adjustment, he said governments should rely more on market mechanisms, and intervention should be confined to minimizing the adverse economic and social costs incurred in the adjustment process.

The spokesman for Group D deplored the increased frequency of trade restrictions by developed countries. These protectionist measures were often discriminatory and were introduced "with total disregard for, or even in violation of, earlier commitments, international trade principles, norms and rules set out in multilateral and bilateral agreements, including the GATT." In such an environment, it was of the utmost importance to reach prompt agreement on the UNCTAD work program in the field of protectionism and structural adjustment.

The representative of China said increased protectionist actions by developed countries had adversely affected international trade and severely impaired the interests of the developing countries. Many of these protectionist actions had been taken after the adoption of Conference resolution 159(VI), and it was very important that the Board reach agreement on a work program for the implementation of this resolution.

Following this exchange of views, Group B tabled a draft resolution on the UNCTAD work program on protectionism and structural adjustment. 1/ This constituted a counterproposal to the draft resolution by the Group of 77 at the twenty-seventh session of the Board, on which no consensus had emerged. 2/ Agreement was finally reached on a compromise text 3/ stipulating that the Sessional Committee established by the Board to review the problems of protectionism and structural adjustment should continue to (a) monitor implementation of Conference resolution 159(VI) and, where necessary, formulate appropriate recommendations on the general problems of protectionism; (b) exchange information and discuss the experience of all members regarding structural adjustment; and (c) continue work on nontariff barriers. The text further stipulated that, in carrying out these reviews, the Committee should give attention to the situation in all sectors and in all countries and groups of countries; examine the links between international trade and balance of payments problems; and give special attention to the needs of the least developed countries.

1/ TD/B(XXVIII)/SC.II/L.2.

2/ TD/B(XXVII)/SC.I/L.1.

3/ TD/B(XXVIII)/SC.II/L.3/Rev.1, attached.



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TRADE AND DEVELOPMENT BOARD
Twenty-eighth session
Geneva, 26 March 1984
Agenda item 4

DEBT AND DEVELOPMENT PROBLEMS OF DEVELOPING COUNTRIES: REVIEW
PURSUANT TO CONFERENCE RESOLUTION 161 (VI), PARAGRAPHS 5 and 6,
OF THE IMPLEMENTATION OF THE GUIDELINES CONTAINED IN BOARD
RESOLUTION 222 (XXI)

Review of the implementation of the agreed features contained
in Trade and Development Board resolution 222 (XXI) and in
pursuance of Conference resolution 161 (VI)

Draft agreed conclusions submitted by the President of the Board

1. The review on the implementation of the agreed features contained in Trade and Development Board resolution 222 (XXI) and in pursuance of Conference resolution 161 (VI) aimed at guiding the process of dealing with debt-servicing problems has been held at the present (twenty-eighth) session of the Trade and Development Board;

2. Broader aspects of the issue of developing countries' indebtedness were also discussed in the context of interdependence of trade, finance and development (agenda item 3), recognizing in particular:

(a) The importance of analysing the difficulties of these countries in the light of both the short-term and the longer-term character of their problems, in order to find solutions adapted to them. This is particularly important in the case of structural adjustment programmes requiring a significant period of time for their implementation;

(b) The crucial importance of the expansion of exports of the indebted countries, in particular for the maintenance of their development momentum and in order to avoid excessive strains on their imports, while at the same time allowing them to service their debts. This implies, among other things, the necessity to actively resist protectionism by implementation of commitments made to this effect at, inter alia, UNCTAD VI and other forums.

(c) The importance to enhance the international co-operation in support of the policies of debtor countries that aim at maintaining or restoring their creditworthiness, thereby contributing to maintain or renew their access to regular financing sources, and in this way to strengthen their economy and their ability to service their debt;

3. In order to facilitate the review of the implementation of the "features" contained in Board resolution 222 (XXI), the UNCTAD secretariat, in accordance with Conference resolution 161 (VI) adopted on 2 July 1983, has prepared a comprehensive analysis of the subject. All participants in the review expressed their gratitude to the secretariat for its useful contribution;

4. The exchange of views that intervened has shown that the international community considered Board resolutions 222 (XXI) and 165 (S-IX) and Conference resolution 161 (VI) as a common basis for guidance in the resolution of the problems covered by them. Reflecting the consensus registered on those resolutions, the different interventions concentrated on suggestions aiming to improve, on particular issues and for particular problems, the effective implementation of the said resolutions, in addition to the results achieved with the co-operation of all parties involved

5. The quality of that very useful exchange of views that took place during the review has been noted by the participants. It was therefore agreed that the various points of view which were expressed should be conveyed by the said participants to their governments and to other forums dealing with those issues, in order to help them to improve their future action in the light of the above-mentioned resolutions;

6. In that view, particular attention is to be given by governments to the following agreed points in order to further improve the implementation of the agreed features:

(a) It is to be recalled that debt rescheduling operations, whether short-term or long-term, should be undertaken within the context of a thorough analysis, taking into account paragraph 7 of the detailed features. The significant efforts made by all parties involved to improve the quality of those analyses and to take them into account should be improved;

(b) International action dealing with debt difficulties of developing countries must be conducted with all the necessary flexibility, in order to improve efficiency and timeliness in dealing with the specific situation of the country concerned, particularly in the case of longer-run problems which require appropriate longer-term measures;

(c) Special attention should be given to individual cases of rescheduling of the poorer, and in particular the least developed, countries' debts, in particular through enhanced co-ordination between the countries concerned and in continuation of the results achieved;

(d) Bilateral negotiations that follow multilateral agreement reached in official creditor groups concerned should be accelerated as far as possible, inter alia by the early delivery of adequate information between the parties concerned;

(e) Governments should maintain, in the appropriate forums their efforts aiming at improving the implementation of the agreed features and generally the solution of debt problems of developing countries, especially by maintaining the flexibility and inventivity of their action and by fostering co-operation and discussions between all parties involved;

7. The role of the World Bank in the process of helping developing countries formulate medium-term investment programmes and in the financial support of such programmes should be emphasized;

8. At the thirty-fourth session of the Board a review of the implementation of the guidelines contained in its resolution 222 (XXI) should be undertaken, taking into account the conclusions reached in its review at the twenty-eighth session.



Statement by the Representative of
The International Monetary Fund at
The Twenty-Eighth Session of the UNCTAD
Trade and Development Board
March 28, 1984

Mr. President:

We welcome this discussion on external debt issues and the Secretariat has provided us with a comprehensive paper on the subject. To contribute to the discussion we have circulated to the meeting a study by the Fund staff on recent debt rescheduling (IMF Occasional Paper No. 25). We would wish to take this opportunity to discuss briefly with you a few issues in an effort to place the Fund's role on debt rescheduling in proper perspective. Those issues relate to the role of the Fund in surveillance of debt problems, the time frame in which debt problems are addressed, certain misunderstandings concerning the nature of the measures advocated by the Fund in its financial programs with members, and the need to raise capital flows over existing levels toward the indebted countries.

Regarding Fund surveillance of debt problems, we should emphasize that, where appropriate, emerging debt problems and the need for countries to take early remedial measures are fully discussed with members in the context of annual Fund

Article IV Consultations discussions. In fact, in recent years the treatment of debt issues in these consultations has been considerably expanded and the discussions include an assessment of the level and composition of the debt, the present and future debt service burden, and whether the existing level and prospective growth of the debt are sustainable over the medium term. To assist in these examinations the Fund in collaboration with the BIS has made considerable progress in the more recent period in assembling a comprehensive and up-to-date system of debt figures for most Fund members. These elements provide us with a basis for an informal early warning system without the drawbacks of a more formal system, i.e., one that could precipitate a crisis rather than avoid it. On the occasion of the annual consultations as well as through more informal contacts, we continuously urge countries that are becoming heavily indebted to come to the Fund promptly for financial assistance in an effort to assist them in strengthening external debt controls. It continues to be of great importance for countries to come to the Fund when the early signals of debt difficulties appear.

With regard to the time frame of Fund assistance, the statement made by the Secretariat that the Fund approach to debt

difficulties is short-term, does not quite conform to actual facts. Of the 16 countries that obtained relief on official debt in 1983, 5 had multiple year arrangements (either EFFs or three-year stand-by arrangements) in place at the time of rescheduling, while a further 6 countries had been in an EFF prior to the rescheduling. At any rate, I must emphasize that all Fund programs, irrespective of duration, are framed within a medium-term perspective.

Concerning the nature of measures advocated by the Fund, it must be stressed that Fund programs are not only demand-oriented, but also address structural supply problems. In this regard, witness the Fund insistence on measures designed to raise economic efficiency, to achieve better resource allocation and to expand output capacity. These measures include most prominently realistic exchange and interest rates, adequate prices in the agricultural sector, better tariffs and prices for goods and services provided by the public sector, and reform of budgetary and tax systems. In our view, these measures are intended to tackle structural imbalances, raise savings and investments, promote sound balance of payments adjustment, and avoid severe debt difficulties. You will agree, Mr. President, that they are a prerequisite for sound and sustained growth and development.

Debt rescheduling is a complex and sensitive process that must be approached prudently; it has been severely tested in the last two years when there was a dramatic increase in both the number of countries that needed to have recourse to rescheduling and in the amounts involved. We do not have to dwell upon these developments, which are spelled out in great detail in Occasional Paper No. 25. Suffice it to say, that the recent experience shows that the existing arrangements have demonstrated a large degree of adaptation and flexibility to deal with increasingly difficult situations. Moreover, the terms and conditions for rescheduling have been improved. Both creditors and debtors, who understandably guard carefully their prerogatives and obligations in these areas, have made major contributions to these changes. The existing multilateral debt rescheduling systems will undoubtedly need to continue to be improved.

The Fund has played a key role in helping indebted countries frame credible adjustment programs and in promoting orderly rescheduling and the mobilization of large external support for those programs. The Fund will continue to pursue this task vigorously. But it should be recognized that, despite the reasonable success achieved so far, more will need to be done in

the future to ensure growing capital flows to the indebted countries. The role of both the debtor and creditor countries will continue to be critical in this respect. The debtor countries must demonstrate that they are taking the necessary steps to regain financial viability and restore their creditworthiness. Internal and external confidence in their policies and economic management must be strengthened. At the same time, there is need for a proper appreciation by creditors of their own role in this process. Clearly too much was borrowed in the past in too short a time with too little consideration of the consequences. This borrowing has been sharply scaled down and it must now be rebuilt gradually to enable borrowing countries to rebound from their present difficulties. There is thus an urgent need to achieve a smooth transition in which sufficient external financing is available to indebted countries so as to place them in a position to sustain their domestic investment while servicing their foreign debt. This process has already been advanced a long way.

The suggestion that debt rescheduling should, where appropriate, be accompanied by a World Bank structural adjustment loan rather than an IMF program is one that can only be addressed by both debtors and creditors. In this regard, it is worth

noting that SALs are invariably implemented in conjunction with Fund financial arrangements. Thus, of the 16 countries which undertook official debt renegotiations in 1983, 6 had SALs or similar programs in effect at the time, while in a further 4 cases, discussions on prospective programs had been initiated. This has meant close collaboration with the Bank in the design and implementation of Fund programs; the Bank, in addition to supporting the programs with its own resources, provides valuable technical inputs on questions such as the size and composition of the investment plan and on setting sectoral priorities and policies. Present arrangements, in our view, have proved flexible and adaptable and efficient in providing substantial debt relief on a continually improving basis and in a medium-term setting while mobilizing large amounts of new resources for indebted countries.



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TRADE AND DEVELOPMENT BOARD
Twenty-eighth session
Geneva, 26 March 1984
Agenda item 5
Sessional Committee II

PROTECTIONISM AND STRUCTURAL ADJUSTMENT

Work programme on protectionism and structural adjustment

Draft proposal submitted by the Chairman

The Trade and Development Board,

Taking into account Conference decision 160 (VI) which called upon the Board to establish a work programme with respect to its continuing work on protectionism and structural adjustment,

Bearing in mind Conference resolutions 131 (V) and 159 (VI) concerning the responsibilities of the Board in this area, and recalling Trade and Development Board resolution 226 (XXII) and decision 250 (XXIV),

Stressing the need to strive individually and collectively for an improved, strengthened, open and expanding trading system so as to restore and reinforce confidence,

1. Decides that the Sessional Committee established by Board resolution 226 (XXII) should carry out, at the first regular session of the Board each year, the annual review of the problems of protectionism and structural adjustment as provided for in Conference resolution 159 (VI) and, in this context:

(a) monitor the implementation of Conference resolution 159 (VI) and, where necessary, formulate appropriate recommendations concerning the general problems of protectionism and continue the work on non-tariff barriers in pursuance of paragraph 6 of Conference resolution 131 (V) and paragraph 6 (b) of Conference resolution 159 (VI), as provided in Section I (A), Protectionism, of Conference resolution 159 (VI);

(b) exchange information and discuss the experience of all members with regard to structural adjustment, review and monitor developments in trade and, where

appropriate, make general policy recommendations, and review progress on structural adjustment and make appropriate recommendations, if necessary, as provided for in Section I(B), Structural Adjustment, of Conference resolution 159(VI).

2. Decides also that, in the carrying out of these annual reviews:

(a) Commensurate attention should be given in accordance with Board decision 250(XXIV) to the situation in all sectors, including agriculture, manufactures and services, and in a consistent way all countries and groups of countries should be covered;

(b) All factors of relevance to the issues of protectionism and structural adjustment should be examined taking into account, inter alia, the links between international trade and the solution of balance-of-payments problems, including the indebtedness of developing countries as related to development and trade, as well as the link between the evolution of world trade and the structure of industries;

(c) Attention should be accorded to fostering greater transparency concerning policies and practices in this area;

(d) Consideration should be given to policies and ways and means to facilitate structural adjustment;

(e) Attention should be given to strengthening participation of developing countries in agro-industrial production and trade;

(f) Consideration could be given to industrial collaboration arrangements;

(g) Attention should also be given to identifying trends in all factors important to the structural adjustment process, such as technological development, demand, and international trade and to factors of production, in particular labour and capital;

(h) With regard to the work on non-tariff barriers, the questions relating to definitions and to the dissemination of the results of the inventory should be addressed;

(i) Particular attention should be paid to the special problems and the needs of the least developed countries;

(j) With regard to (a) to (i) above, relevant work as well as documentation and information available in other appropriate international fora should be taken into account as provided in Board resolution 226 (XXII) and decision 250 (XXIV).

3. Instructs also the Sessional Committee to consider other measures designed to assist the developing countries to promote and diversify their exports.

4. With a view to implementing the decisions in paragraphs 1 and 2 above, invites States members of UNCTAD:

(a) to provide information on actions relevant to agreements and commitments in Conference resolution 159 (VI) with a view to assisting the Board in monitoring the implementation of Conference resolution 159 (VI) as set out in paragraph 1 (a) above;

(b) to continue to provide information on their experience with regard to structural adjustment, in the light of paragraph 10 of Conference resolution 159 (VI), to assist the Sessional Committee in reviewing progress on structural adjustment and in assessing its implications for the trade and development of developing countries and for the world economy as a whole;

(c) to continue to co-operate in supplying and, if necessary, verifying, information required for the preparation of the comprehensive, factual and analytical studies to be prepared by the secretariat.

5. In the light of the decision in Conference resolution 159 (VI), decides that the Board will follow closely progress in the GATT on a comprehensive understanding on an improved and more efficient safeguard system, with a view to assisting developing countries to participate in this process fully, and to this end invites the Secretary-General of UNCTAD and the Director-General of GATT to hold consultations.