

Statement by Mr. Muhammad Hassan, Pakistan's Delegate to the Second Committee, on Agenda Item 86 (d) "External debt crisis and development"

Mr. Chairman,

We would like to thank the Secretary-General for his report entitled "External debt crises and development".

Mr. Chairman,

According to Secretary-General's report, the total external debt of the developing countries at the end of 2001 was estimated at close to 2.5 trillion dollars or 38.2 per cent of their gross national income. The same figure at the end of 1996 was 1.8 trillion dollars. The amount as well as the increase in the figures is astronomical.

4. The combination of extreme poverty and extreme indebtedness has plunged a large number of low income countries into a desperate downward spiral. Governments have no chance of meeting the social needs of their people when they are forced to spend more than half of their budgets on debt servicing. The 712 million people who live in more than 40 countries known as "Highly Indebted Poor Countries (HIPC)", have no prospects of improving their economic and social situation. For these countries, even full use of traditional mechanisms of rescheduling and debt reduction may not be sufficient to attain sustainable development.

5. Over the last few years, a number of initiatives have been undertaken to give some relief to the debt ridden countries including the HIPC initiative. was launched in 1996 to provide debt relief to some 40 highly indebted poor countries, mostly from Africa. But HIPC covers only a fraction of the unsustainable debt of the developing countries. Secondly, it requires the potential beneficiary countries to go through a long list of difficult conditionalities before it is made eligible for relief. The Secretary General's report states that in 1999, the number of conditions attached to 13 HIPCs averaged 110 per country, of which 77 were governance related. Resultantly, the relief provided under this initiative has been too little and too small. After six years of its launching, only 18 countries of the 33 have attained the "decision point", and of this number only 4 were able to reach the "completion point".

We do believe that the domestic governance, and policy reforms are important for attaining economic growth and development but development can not be conditioned to ransom. As long as the debt relief is tied to structural adjustment, the goal of releasing resources for development will remain out of reach.

7. The Secretary-General's report and the report by the United Nations Executive Committee on Economic and Social Affairs have made some good proposals for effective debt relief to HIPC, especially the proposals to apply less restrictive eligibility criteria and explore more sources of funding for "real" relief package. The developed countries and relevant organizations must consider these proposals seriously.

Mr. Chairman,

8. We would also like to point out that a number of middle income developing countries are also confronted with serious external debt problems. The social impact of external debt in the middle income developing countries is serious and wide spread. This leads to deterioration of living standards, social disorder and eventually political instability. A large number of middle income developing countries' debt/GDP ratio is extremely high. For instance, Pakistan's debt/GNP ratio is 58 per cent and debt/exports ratio is 203 per cent. Out of every 100 dollars that we earn

through exports, 36 are lost to debt servicing. The debt servicing/government revenues ratio is to the tune of 31.5 per cent.

9. The debt sustainability of middle-income developing countries is not only essential to their economic growth but also to the smooth functioning of the world economy. It became evident during the Latin American debt crisis in 1980s that the debt sustainability of the middle income developing countries has major impact on the world's economy. Considering the current debt burden of a large number of middle income developing countries, the possibility of a similar crisis hitting the international community cannot be ruled out.

10. In his report, the Secretary-General has recognized that the international financial system lacks a coherent and realistic international strategy to deal with financial instability and the debt sustainability of developing countries. This was also recognized by the International Conference on Financing for Development. The "Monterrey Consensus" had therefore underlined the need to put in place a set of clear principles that could ensure fair burden sharing between the creditors and the debtors. The middle income countries need major reductions in their debt obligations to stave off defaults and their consequences.

Mr. Chairman,

13. By any objective economic analysis Pakistan is a "Highly Indebted Developing Country". We strongly believe that outright debt reduction is the only effective way to address the external debt problem of the middle income developing countries, particularly countries which are in a situation similar to Pakistan.

Mr. Chairman,

14. Debt repayment is increasing absolute poverty in poor countries. Vast sums of money, which can help raise the peoples' quality of life through education, health care and employment are being diverted to meet crippling repayments to Western financial institutions. Last year alone, developing countries paid 270 billion dollars in debt service. This means 60 dollars for every man, woman and child. In fact for every one dollar given in aid, the industrialized countries received 9 dollars back in debt service. This is one of the greatest injustices of our time.

15. The world's richest nations appear to believe that they can continue basking in prosperity while indebted countries hover on the brink of collapse. If they do, it would seem that they are not mindful of their own long term interests. The inhabitants of impoverished countries will not accept exploitation of their resources for ever.

16. The developed countries must review their policies for debt relief. They must take immediate action to provide a global, comprehensive and durable solution to the external debt problems of all developing countries. With the current debt sustainability level and slow action by the International Financial Institutions, a debt crisis is indeed looming on the horizon.

17. We firmly believe that the United Nations should have a key role in evolving and implementing a comprehensive debt relief programme. The United Nations, the only universal democratic organization has the capacity to take such initiatives and to make them a process.

I thank you, Mr. Chairman.

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