UNCTAD PROPOSALS FOR DEALING WITH EXTERNAL DEBT PROBLEMS OF LESS DEVELOPED COUNTRIES (LDCs): SOME THOUGHTS ON THE CARIBBEAN EXPERIENCE

by

CLAREMONT KIRTON

Paper Presented at the Eleventh Annual Regional Monetary Studies Conference, Basseterre, St. Kitts, October 29-31, 1979

Institute of Social and Economic Research
University of the West Indies,
Mona, Kingston 7,
JAMAICA

UNCTAD Proposals for dealing with External Debt Problems of Less Developed Countries (LDCs): some thoughts on the Caribbean experience

by Claremont Kirton

Introduction

Since the late 1950's, there has been an increasing aggravation of the external debt problems faced by the less developed countries (LDCs) of the world economy. During the 1960's, the major debt problems of these countries were affected by two factors. Firstly, there was a hardening of the terms of official concessionary loans from the developed capitalist countries which seriously affected borrower LDCs. Secondly, as a result of this, many LDCs were forced to rely more heavily on foreign private sources of finance capital which carried stricter terms, including much shorter maturity periods. From 1970, serious crises in the world capitalist system have impacted further on LDCs external debt problems. For example, increases in oil import prices and declining prices of primary commodity exports have worsened the monetary and financial difficulties facing these countries. Such problems can be identified as the more contemporary manifestations of an historical experience which has affected the entire Third World economy. Watchel[1] summarises this phenomenon very clearly:

> "The debt problem now strangling economic progress in the LDC's has its promixate cause in the recent deteriorating terms of trade in the Third World. But the larger picture must be traced back to the legacy of colonialism which left the Third World vulnerable to trade fluctuations because of its integration into the world capitalist system" (emphasis ours).[2]

This interpretation informs our analysis throughout the paper.

Poor countries' debt burden: statistical evidence

The rapid expansion in the external debt of the underdeveloped countries is shown in the official statistics published by the World Bank.

Although World Bank data is the most comprehensive available, it has only recently (1977) incorporated data on private debt, i.e. loans owed to private sources where the debt is not guaranteed by government in the recipient country. If, for example, private banks lend funds to Jamaican entrepreneurs but these loans are not guaranteed by government, such data is not recorded in the World Bank statistics. It is reasonable to argue, therefore, that World Bank data understates the external debt situation of poor countries, particularly with respect to loans from private sources.

In Table 1, we present data on the debt situation of 67 "non-oil exporting LDC's". This information is from the most recently available World Bank Debt Tables and it shows that the debts outstanding (including undisbursed) increased by 85% between 1973 and 1976. The disbursed portion of outstanding debt more than doubled between 1973 and 1977. During this period, loan commitments (or new debt) averaged US$33.1 million per annum, with the annual amounts actually doubling. Net disbursements (1973-1977) averaged some 53% of commitments; there was, however, some fluctuation during the period with 1975 being the highest (62% disbursed) and 1974 the lowest (44%).

The creditor composition of LDCs external public debt has some important consequences for their economic development and welfare. Since 1970, there has been a decline in the share of debt owed to governments from 52% of total debt outstanding to 40% in 1976. Simultaneously, there has been a growth in loans from financial markets (private banks, bonds etc.) with the debt owed to this category of lender increasing from 16% total debt in 1970 to 35.6% in 1976. Relevant information is given in Table 2.

However, the implications of this shift in the type of creditor providing funds to LDCs must be examined closely. The general tendency is for private creditors to impose much more restrictive terms and conditions than governments and international lending agencies. Repayment periods for private loans are much shorter and the rates of interest much higher than other loans. From 1976, the World Bank has officially recognized this problem and has pointed out that "compared with borrowing from official sources, borrowing from private sources requires payment in a shorter period of time and also at a higher rate of interest."[3] This means that the poor countries of the world face an increasing debt burden because not only has the size of the debt increased in real and monetary terms, but also the loan repayment periods have become much shorter and the interest rates more punitive.

Furthermore, with the shorter maturity periods of the poor countries' debt structure, their economic policies are seriously affected; the implication here is that many long-term investment projects cannot be undertaken because the rates of return on these projects do not generate the funds to meet repayment schedules. In general, short-term borrowing (especially that which has to be repaid in foreign currency) cannot finance long-term economic activity. It must also be noted that because the poor countries face serious current account deficits in their balance of payments, they are forced to use the short-term foreign exchange obtained to finance their deficits (so-called "upfront money"), rather than fund investment projects.

The data shown in Table 3 lists debt service ratios (i.e. the proportion of annual export earnings which are used to finance accumulated debt) for selected poor countries. It is felt by some analysts that when a country's debt service ratio exceeds 20%, then debt burden problems become excessive;[4] however, where the LDC is an open economy with a heavy dependence on foreign trade, it is arguable that a 10% ratio is problematic. Of the 18 countries shown in Table 3, at least 7 (Guinea, Mauritania, Chile, Mexico, Peru, Uruguay, and Srilanka) faced overwhelming debt servicing problems in 1976.

Although not exhaustive, the foregoing discussion attempted to summarise the critical situation of financial indebtedness facing the world's poorer countries.

Caribbean Economies' debt burden: Statistical overview

External indebtedness of countries in Latin America and the Caribbean (excluding oil exporters)[5] increased by 28% between 1975 and 1976. As shown in Table 4, the external indebtedness (1976) of these countries was about 38% of the total for all non-oil exporters. Brazil accounted for 29% of the region's external debt, while three other countries (Mexico, Argentina and Chile) together accounted for an additional 46% of total debt outstanding for the region.[6] When we consider comparable data for four countries of the English-speaking Caribbean (Jamaica, Guyana, Barbados, and Trinidad and Tobago), we find that their combined external indebtedness accounted for only 3% of the wider Latin American and Caribbean region's total indebtedness in both 1975 and 1976.

A more detailed picture of the English-speaking Caribbean external debt situation is presented in Tables 5, 6 and 7. The crises facing both the Jamaican and Guyanese economies warrant special attention. Between them, these economies accounted for over 80% of the English-speaking Caribbean external debt in both 1975 and 1976 (see Table 7). Both countries have been relying fairly heavily on private sources of borrowing which, as we have already indicated, carry much stiffer terms than public loans.

There is further evidence to support this when one examines the debt service payments made by both countries during 1975 and 1976. For Jamaica, during these years an average of over 75% of total debt service payments was made to private lenders; for Guyana, the comparable statistic was around 60%. The negative economic consequences of the severe debt burden facing both economies is reflected in a significant deterioration in the living standards of the people, and the imposition of International Monetary Fund (IMF) economic solutions.

The other important indicator which reflects both extent and burden of a country's external indebtedness is the debt service ratio. Data for the selected English-speaking Caribbean countries is presented in Table 3. Once again, the Jamaican and Guyanese economies appeared fairly close to serious problems in 1976. More recent experiences in both countries suggest a worsening rather than improvement in their external debt situation[7] and related economic dislocation.

Early UNCTAD Policy Responses

The United Nations Conference on Trade and Development (UNCTAD) was established in 1964, partly as a response to certain problems being experienced by the world's poorer countries. At that time, these countries felt that their economic problems could not be alleviated without concerted action by the entire international community. In addition, the dominant view of the poor countries was that those international organizations operating during the preceding decade were incapable of dealing with issues related to economic backwardness. Commenting on the factors leading up to the formation of UNCTAD, Gosovic states that "there was no available forum that the developing countries considered capable of taking an overall view and devoting its entire attention to their trade and development problems".[8] This may explain further the interest of the poorer countries in the creation of an organization like UNCTAD.

The first UNCTAD Conference (1964) addressed, inter alia, issues related to foreign economic assistance and the external debt problems of poor countries. There was unanimity among the poor countries who requested that developed countries should provide them with additional financial resources under more favourable terms and conditions. The negative response of the developed countries suggested, in part, that since these proposals did not promote their interests, then they could not be supported.

Certain specific measures concerned with alleviating the external debt problems of LDCs were proposed at UNCTAD I. These can be summarised as follows:

(a) Expansion of concessional lending by the developed capitalist economies.

(b) A rapid reversal of the trend towards harsher terms on international lending; this included suggestions that aid should be a combination of grants and loans, interest rates should not exceed 3% per annum, and that donors should consciously attempt to reduce the "tied" nature of aid.

(c) UN sponsorship of debt rescheduling operations in order to enhance development possibilities in poor countries.

These proposals were not implemented mainly because the self-interest of the developed countries conflicted with them. For most of the developed capitalist economies, there was virtually no commitment towards increasing foreign aid and there was strong reluctance to soften the terms and conditions under which aid was granted. Since the developed capitalist economies used foreign aid as both an economic and political instrument, they rejected any proposals which would direct funds to multi-lateral agencies, because their control over these funds would become minimal. A number of rationalizations were made to support the developed countries' reaction; these included suggestions that loanable funds were in short supply, and arguments that both national parliaments and the wider population in the countries involved were unwilling to support any attempts to assist the poor countries.

During subsequent UNCTAD meetings (especially UNCTAD III in 1972) the external debt question was again discussed. The proposals remained quite similar to those emanating from UNCTAD I, although two specific proposals from UNCTAD III are worth noting. The Group of 77 (G77) proposed firstly, that debt relief should be a priority for poor countries, especially those with excessive debt service ratios and secondly, that UNCTAD should create a multi-lateral agency with a specific role to examine individual countries' external debt problems against certain generalised standards. However, these proposals were not to be implemented in any meaningful way.

During the period 1964-1976, a number of additional proposals concerning external debt problems of poor countries were put forward outside of the UNCTAD framework. The poor countries proposed to the Pearson Commission (1969)[9] the following policies:

(a) Immediate debt relief operations to avoid repeated re-scheduling.

(b) Donor countries should consider debt relief as aid, and permit the use of new loans to refinance debt payments in order to reduce the need for debt negotiations.

(c) Development assistance ("aid") should be granted at low interest rates (maximum 2% per annum), long maturity periods (20-40 years) and extended grade periods (7-10 years).

The Pearson Report, although admitting that "debt relief should be recognized as a legitimate form of aid", placed the burden of debt adjustment on the poorer countries, urging them to pursue "sound financial policies".[10]

In a later report, Peterson[11] (1970) put forward certain proposals which were expected to fashion US policies concerning LDCs debt problems. The main proposals were:

(a) Debt rescheduling (supervised by International Monetary Fund/World Bank on the basis of estimates of future debt service and export potential of debtors.

(b) Debt rescheduling of bi-lateral, but not international agency loans.

(c) Internationally agreed ceilings and minimum maturities of commercial credits.

(d) Undertaking by debtor countries to pursue certain economic policies as recommended by "supervising agencies".

(e) Use of IMF stand-by credits.

(f) Provision of new loans on "more concessional terms".

These measures generally, required that the debtor countries pursue policies which maintain "lender confidence"; in effect, such measures would force the debtor countries to accept an inordinately large share of the burden of debt alleviation. Additionally, the advanced capitalist countries as donors would be in a position to fashion debtor countries' economic policies either directly or indirectly through "supervising agencies" like the IMF.

More Recent UNCTAD Proposals

As a group, the poor countries have proposed numerous measures in international forums concerning their external debt problems. UNCTAD IV (1976) was probably one of the most important forums, as far as specific proposals are concerned. Caribbean countries were actively involved in presenting G77 recommendations; in fact, Jamaica acted as co-ordinator of G77 during this period. Here, the LDCs identified specific policies which were geared towards alleviating their external debt burdens; along with these specific measures were others which dealt with the broader issues of resource transfers from the more developed to the poor countries in the world community.

Proposals for dealing with LDC's debt burden addressed both official and commercial debt problems. In dealing with bi-lateral creditors, the following measures were suggested:[12]

(a) Poor countries seeking debt relief from bi-lateral sources should be granted such relief in the form of waivers or postponements of debt payments.

(b) the "most seriously affected" countries should have their debts cancelled, or at a minimum, their debt service payments waived until their debt position changes.

(c) The "least developed" or poorest countries should have all their debts cancelled.

Concerning multi-lateral debts, the policy suggested was that the multi-lateral financial institutions provide programme assistance to poor countries in amounts which, at minimum, are equal to the debt service payments from those countries.

Measures put forward to alleviate problems related to commercial debts were:

(a) Consolidation of all debt from private sources, and rescheduling of these debts over a twenty five year period.

(b) Provision of suitable financial arrangements to fund short term debts.

Finally, the poor countries called for a debtor-credit conference organized by UNCTAD to determine methods of implementing principles and guidelines reached at UNCTAD IV.

In addition, measures related to the transfer of real resources to the poorer countries were also proposed. These measures requested, inter alia, that developed capitalist countries meet a specified target of 0.7%

of gross domestic product (GDP) which would be allocated to development assistance of the world's poorer countries. Suggestions were also made that official development assistance from developed countries should be offered on most concessionary terms and in forms most appropriate to the development objectives of the recipient countries.

Reactions by different sections of the world community to UNCTAD IV proposals are instructive. There was some dissent among the more developed LDC's; these countries (defined as "commercial" developing or middle-income countries) which borrow heavily from the world capital markets were concerned not to affect their international credit-rating and so jeopardize their access to private sources of funds internationally. These countries (e.g. Brazil, Mexico, Argentina, Spain) argued that if they actively supported generalized debt relief, commercial banks and other international lenders would definitely re-assess financial relations with them; this, they continued, could minimise foreign capital inflows and affect their national development. For the other LDCs, however, debt relief was absolutely necessary and therefore, UNCTAD IV proposals were actively supported.

Initial responses of the United States (U.S.) government were towards rejection of UNCTAD IV debt proposals.[13] The major criticism was that generalized debt relief would not help either the poorest or the middle income LDCs. The U.S. government expressed support for the position put forward by certain middle income countries that their access to world financial markets could be jeopardized by the proposed measures. Further, the U.S. government broadened this argument to include even the poorest countries; it was posited that even for these countries, the costs in terms of being severed from the world financial markets outweighed any immediate benefits associated with debt relief. Furthermore, the view was expressed that unless donor countries initiated debt relief measures, there was a real possibility that poorer countries would face large cut-backs especially in private financial inflows, but also significant reduction in official assistance. The U.S. Treasury Report (1977) on debt problems of poor countries stated explicitly that generalized debt relief would be consistently rejected by U.S. authorities and pointed out that "it is U.S. government policy to extend credit on the explicit understanding that it will be repaid according to the schedule agreed to by the borrower..." [14]

Two other U.S. criticisms of UNCTAD IV proposals are to be noted. Firstly, it was argued that from a donor perspective, generalized debt relief penalized most heavily those countries which had historically provided significant economic assistance to LDCs; this was done, the argument continues, without any consideration of the present economic situation of donors. Secondly, a U.S. view pointed to the fact that since debt relief proposals provide no guarantees for ensuring that assistance would be granted only to countries pursuing "sound economic policies", donor countries were correct in their opposition to the proposed measures. The politico-economic significance of this last criticism will be discussed later.

In their response to UNCTAD IV proposals on debt relief, the world socialist community[15] expressed their principled support for the poorer countries of the world which were attempting to overcome different levels of economic backwardness. The socialist states argued that the most important causes of debt problems in LDCs was due to their integration into the world capitalist economy, and the dominance of imperialist multi-national corporations which transferred enormous amounts from LDCs to the developed capitalist economies. Although supporting the position of the LDCs, the socialist states accepted no responsibility for eliminating the historical and related contemporary manifestations of world capitalist crises. However, the socialist states indicated a willingness to co-operate on a bilateral basis with interested LDCs seeking solutions to their specific international financial problems. It was clearly stipulated that technical and economic assistance from socialist states to developing countries would depend on the actual capacity of both parties for mutual co-operation, especially in material production.

Finally, in their position paper on monetary and financial problems facing LDCs, the socialist states proposed the following:

(a) Developed capitalist countries should increase the volume and improve the terms of economic assistance to LDCs.

(b) LDCs should exercise strict control over and attempt to reduce financial outflows from their economies, especially those via multi-national corporations.

(c) International financial organizations should make more financial resources available to LDCs.

(d) Part of new issues of Special Drawing Rights (SDR's) should be used to finance assistance to LDCs.

Measures proposed by LDCs at UNCTAD IV were further pursued at the Conference on International Economic Co-operation (CIEC). As with UNCTAD IV, although CIEC discussions were exhaustive, it was not possible for any agreements to be reached. After CIEC (1977), debt problems of LDCs were again discussed in numerous UNCTAD inter-governmental meetings leading up to the Ministerial session of the Trade and Development Board. At the Ministerial session (late 1977), two important decisions were taken.

The first decision was that a number of developed capitalist countries agreed to retroactive adjustment of terms of outstanding LDCs debt. On the basis of this agreement, certain major creditor countries were expected to convert into grants the loan repayments owed them by some of the world's poorest countries. The countries which would benefit immediately were the 26 poorest (or least developed), and 16 other low per capita income countries, termed the "most seriously affected countries". It was anticipated that other poor countries which were affected would be assisted by further concessional "adjustment" measures. Recent UNCTAD statistics show that U.S. $6.2 billion in loans owed by the poorest countries, with annual debt servicing costs of US$300 million for twenty years, are to be converted into grants under this scheme. The Federal Republic of Germany, United Kingdom, Japan, Canada, Sweden, Netherlands and Switzerland are among the largest donor countries which have supported the retroactive adjustment measures. However, France and U.S. had not, up to mid-1979, announced support for the measures. The U.S. has been suggesting a case-by-case review approach for debt relief; obviously, this approach would guarantee U.S. government, considerable leverage in using debt relief measures as part of its foreign politico-economic policy.

The second decision arising out of the Ministerial session related to the question of guidelines for future debt operations. Certain problems arose out of discussions on the institutional arrangements; the poorer countries proposed the creation of a "permanent, independent and impartial" institution to deal with all aspects of poor countries' debt problems. Contrarily, the developed countries argued that certain special cases involving imminent debt default could be handled on an emergency basis by the donor countries involved, while less urgent problems could be dealt with through consortium-type institutions like the Caribbean Group for Co-operation in Economic Development. Although the disagreement on institutional form was not resolved, there was agreement that international action on external debt problems facing LDCs should be handled using methods which would minimise economic dislocation and enhance development in the debtor country. Unfortunately, the main difficulty remained the institutional arrangements, and therefore, policy implementation was constrained.

Since UNCTAD IV, the situation with respect to LDCs' external indebtedness has not improved. The main problems include the worsening maturity structure of LDC's external debt, the poor prospects regarding available private funds, insignificant changes in the terms and conditions of official and private lending, and the nearness to debt default of certain poorer LDCs. Although somewhat better placed economically, some middle-income countries are also seriously affected by the problems listed.

The LDCs (G77) in their submission to UNCTAD V[16] put forward certain specific proposals. Firstly, it was stressed that any domestic measures suggested by creditors should "correctly reflect the responsibility of the debtor and do not give external authorities the right to infringe on the sovereignty of states."[17] In this context, the G77 clearly recognized the real possibilities for politico-economic leverage exercisable by the creditors over the poorer LDCs in negotiations concerning the alleviation of debt burdens.

The G77 also raised, once again, issues concerning the establishment of an International Debt Commission to handle debt problems of poor countries. The G77 proposed that the Commission should be established immediately and be empowered to perform the following functions:[18]

(a) Examination of the external debt and related economic developmental problems of any LDC which so requests.

(b) Recommend specific measures to deal with the debt problems, including debt reorganization and guidelines concerning bi-lateral and multilateral finance.

(c) Convene meetings to facilitate implementation of recommendations.

Policy Responses: A Caribbean perspective

Not unexpectedly, there are wide divergencies between external debt policy proposals from LDC's (the main debtor countries) and the advanced capitalist states (the major creditors). Underlying LDC proposals, throughout UNCTAD conferences and in other international forums, is the argument that their high levels of foreign debt accumulation have resulted from certain international factors outside of their control; the major factor has been their experience of integration into the world capitalist system and the resulting negative economic consequences. Therefore, LDC's generally support the view that the mature capitalist creditor countries are responsible for correcting problems related to LDCs external indebtedness.

The creditor countries, however, argue that problems of external indebtedness facing LDCs have been caused by LDCs failure to protect themselves adequately from the consequences of the international capitalist crises; the problems therefore, are internal LDC problems and can only be solved by imposing measures within these economies.

From a Caribbean viewpoint, there are certain broad external debt policy options which can be identified. These options are summarily presented as follows:

(i) Debt repudiation: This refers to a total renunciation of a country's external debt (both private and public). It represents a radical break in a country's international monetary and financial relationships with its traditional partners. Therefore, there are serious risks attached to the implementation of debt repudiation policies; these include retaliation from creditors (both public and private) and exclusion from certain sections of the international economy. Certainly, for any Caribbean economy in this particular period, the costs of external debt repudiation greatly out-weigh the benefits which may accrue, and hence render this policy option unworkable.

(ii) Debt cancellation: The creditor countries and institutions, under this arrangement, may cancel ("write off") all or part of a country's external debt. However, this is usually done on the basis of negotiations with the debtor countries and may place them in a politically vulnerable position vis-a-vis creditor countries. When compared to other LDCs, (especially the poorest like Bangladesh, Ethiopia, Mali and Haiti), there is every likelihood that the Caribbean economies would not benefit (at least, presently) from any debt cancellation policies initiated by the major creditors. Even so, we suggest that Caribbean governments facing external debt problems should consider negotiating debt cancellations with their creditors. There is also the possibility that as the debt problems of the Caribbean countries (especially in Jamaica and Guyana) worsen, these countries may fall into UNCTAD's "most seriously affected country" category and obtain some amount of debt relief under UNCTAD's proposed schemes.

(iii) Debt rescheduling: Rescheduling of a country's external debt refers to an adjustment of the terms and conditions of outstanding loans. For example, new repayment schedules may be introduced, interest rates adjusted, or principal payments deferred. In most cases of debt re-scheduling over the last 20 years, however, current payments of interest have been required by creditors.[19]

Generally speaking, two broad options exist in connection with debt rescheduling policies; these are unilateral debt rescheduling and negotiated debt rescheduling.

Unilateral debt rescheduling refers to a situation in which the debtor country introduces new terms of repayment of its outstanding loans without consulting creditor countries and institutions. The Acheampong military government in Ghana (1972) unilaterally rescheduled a portion of that country's external debt.[20] Under this arrangement, about 25% ($218 million) of Ghana's external debt was rescheduled along the lines of the low-interest, long-term loans granted by the World Bank's affiliate, the International Development Association (IDA) which specialises in "soft loans". The new terms and conditions for this part of Ghana's external debt[21] were as follows: repayment over 50 years, with a moratorium for the first 10 years, 10% in the next 10 year period, and the remaining 90% over the last 30 years. Although not as risky as debt repudiation, unilateral rescheduling may lead to some form of retaliation by the creditors affected. Unilateral debt rescheduling by Caribbean countries is recommended only when all other alternative options have been unsuccessful or when the countries face extreme levels of economic aggression by creditor states.

Negotiated debt rescheduling has been much more widely used than the unilateral approach. Most of these negotiated arrangements have been accompanied by the introduction of certain "adjustment measures" by LDCs at the request of creditor countries. These "adjustment measures" usually refer to a series of domestic measures imposed on LDCs by the International Monetary Fund (IMF). LDCs are forced to implement these policies so as to obtain the IMF "certificate of good standing" which is supposed to guarantee the confidence of the lender, and which facilitates debt rescheduling operations. From the 1950's, so-called "IMF conditionality" has been a fundamental prerequisite for any extensive negotiated debt rescheduling undertaken by LDCs. Negotiated debt rescheduling, outside the framework of "IMF Conditionality" is strongly recommended, particularly for those Caribbean economies presently facing heavy debt burdens. In all negotiated debt rescheduling agreements, there must be "bisque" clauses which permit the debtor, under certain conditions (for example, serious foreign exchange crises), to obtain some agreed amount of debt relief.

Although objective conditions both locally and internationally favour debt rescheduling by Jamaica, this policy has not been actively pursued. In 1978, a portion of the country's private commercial debt (to certain foreign commercial banks) was rescheduled under fairly strict terms. These terms included "IMF conditionality", increased interest rate charges which payments have to remain current, and a reduction in the principal payments and over a two-year period. Available information suggests that bi-lateral or multi-lateral rescheduling are not being considered presently.

(iv) Debt refinancing: External debt refinancing involves the provision of new loans, with a view to easing liquity crises facing debtor countries. Refinancing can involve both public and private external debt, and may take a variety of forms. For example, specific loans outstanding may be re-financed via new loans by the creditor(s) involved. Alternatively, there may be consolidation of credits and a new loan granted to finance all previously outstanding credit; among the methods used here is multi-lateral or bi-lateral agencies refinancing of private credit in the form of substituting a new loan for the original loans due to private interests. Refinancing, however, involves new loan negotiations and agreements which can place the debtor country under more serious economic constraints, over the long run. Caribbean countries are therefore advised against widespread refinancing unless these policies are combined with debt cancellations and/or favourable debt rescheduling arrangements.

Apart from debt repudiation, the other policy options listed (with certain modifications) fall within the broad UNCTAD proposals and should be actively supported by Caribbean states. However, it is extremely important to recognize that these are mainly short term measures, and that LDCs problems of external indebtedness cannot be eradicated without significant long term structural changes both in the international economy and the international conditions of LDCs.

Having outlined certain broad policy options, it is useful to consider specific issues raised in UNCTAD which are generally relevant to the concrete situation in the English-speaking Caribbean.

Firstly, there is the categorization of LDCs into "least developed", "middle-income" and "oil exporting". These distinctions mask the reality of similar historical experiences and contemporary manifestations of economic under-development which characterises all LDCs. In addition, these distinctions minimise the internal cohesion of the LDC group by suggesting that their differences are more significant than their similarities. In UNCTAD proposals, the "least developed" LDCs are given priority with respect to debt relief measures; this differentiation excludes English-speaking Caribbean economies like Barbados, Guyana, and Jamaica which are classified as "middle income" LDSs and Trinidad and Tobago which falls into "oil exporting" LDC category.

Although it is imperative that Caribbean states strongly support UNCTAD proposals for converting external debts of "least developed" LDCs into grants, there is the need to ensure that all LDCs benefit from these arrangements. Caribbean countries should, therefore, propose that these policies be made applicable to all those LDCs wishing to utilize the facility.

Secondly, UNCTAD proposals have been much more concerned with those LDCs whose external debt problems have reached crisis proportions. For example, UNCTAD recommendations deal mainly with "most seriously affected" debtor countries whose debt problems are most "acute". Caribbean states must urge that UNCTAD policy guidelines also deal with debt management. Such policies would assist those LDCs whose debt problems are not at crisis stage (for example, Barbados, Grenada, Trinidad and Tobago) and who wish to forestall or reduce the severity of serious debt crises. Debt management policies include provision of comprehensive, up-to-date information on all aspects of a country's external debt, cash-flow management, and relevant data on movements in the international monetary and financial system. These and other related policies can assist external debt planning by LDCs.

Thirdly, although Caribbean states ought to introduce debt rescheduling and refinancing operations in order to alleviate their debt problems, these policies must always be implemented in a manner which guarantees genuine economic development and minimises foreign economic intervention. In many instances, as has already been mentioned, negotiated debt rescheduling and refinancing arrangements frequently require that debtor countries impose internal policies which restore "lender confidence". For LDC debtor countries, this invariably means accepting IMF conditions which amount to restrictive economic policies as both the Jamaican and Guyanese experiences indicate.[22] Caribbean states must resist, in all international forums, any attempts by creditor countries to impose "adjustment measures" on debtor LDCs as a prerequisite for debt rescheduling or refinancing. On the basis of widely documented LDCs experiences with the IMF, and the more recent Jamaican and Guyanese IMF "solutions", Caribbean countries must reject totally the use of the IMF or any other international financial agency as a "front man" for creditor countries or clubs. Further, in supporting rescheduling and refinancing policies, Caribbean states should urge creditor countries not to infringe on their national sovereignty by imposing any type of quid pro quo measures.

Fourthly, the country-by-country approach to debt relief proposed by some of the mature capitalist creditors (led by U.S.) must be consistently rejected by Caribbean countries. Although superficially, the country-by-country approach may appear particularly attractive to certain LDCs, it allows the creditor countries significantly political and economic leverage. For example, a creditor country may withhold debt relief in a situation where it disagrees with policies being implemented by the debtor LDC; simultaneously, debt relief may be provided when the debtor supports international politico-economic manoeuvres of the creditor country. LDCs should, therefore, recognise the dangers inherent in this policy prescription and act accordingly.

Fifthly, the proposals from UNCTAD do not deal adequately with private financial institutions (especially commercial banks) which have become important sources of external finance for LDCs since 1970. These private banks provide LDCs with much needed foreign exchange to finance their current account deficits, although these funds are loaned on much stricter conditions and much shorter terms than public loans.[23] Because LDCs have not regulated their borrowing from private foreign banks, they now face serious aggravation of their debt burden. Since the average length of private bank loans are short and the interest rates high, LDCs face severe burdens when repayments are due. In many instances, LDCs are forced to allocate larger proportions of their foreign exchange earnings to service these private debt payments. Of course, this leads to economic dislocation in import dependent LDCs.

As the information on the Caribbean economies indicate, Jamaica and Guyana have particular problems which relate to servicing private foreign debt. Even if only on this basis, Caribbean countries must implement policies to regulate foreign private commercial borrowing. Further, UNCTAD may be requested to introduce proposals for regulating private bank operations at the level of both creditor and debtor countries.

Sixthly, Caribbean countries must support the immediate establishment of an International Debt Commission to deal with <u>all aspects</u> of LDC external indebtedness. At the same time, Caribbean countries should recognize the limitations of existing policies which rely on creditor clubs (like the Paris Club) to provide significant debt relief. The creditor countries' perception of these debt renegotiations is instructive; according to the World Bank, creditor countries view these as

> "... <u>ad hoc</u> meetings to prevent imminent default threatened by bunched repayment obligations; their /i.e. creditor countries/ aim has been <u>to provide temporary</u> debt relief, rather than to negotiate a long-term adjustment of the debt burden. They also wish to <u>keep debt renegotiations separate from the provision of concessional assistance</u>". (emphasis ours).[24]

The final issue which we identify is concerned with the use of debt relief measures to improve flows, terms and conditions of resource transfers from more developed countries to LDCs. Historically, UNCTAD proposals have not integrated debt relief measures with those geared towards improvements in the transfer of resources from developed countries. In their most recent programme, however, the G77 has attempted to make this relationship more explicit; one of the measures proposed by the G77 for an "effective and equitable system of international finance" is that the transfer of real resources should "be on terms commensurate with the debt servicing capacity of the developing countries".[25] Caribbean countries need to support the position which recognizes that debt relief policies are integrally linked with those measures geared towards the greatest improvement in resource flows to LDCs.

In concluding this section, we wish to make an observation concerning Caribbean countries' debt situation and relationships within the regional integration process (CARICOM). Within CARICOM, the different member states have had a common experience and face similar economic problems. If meaningful regional integration is to develop, then a <u>collective regional approach</u> to the numerous problems facing the region should be pursued. In addition to those measures which we have already advocated, we propose a regional arrangement which would, <u>inter alia</u>, provide <u>different forms of debt relief</u> to member states. This arrangement will not only help those countries facing severe short term debt burdens but also provide debt management assistance to member states wishing to avoid any debt predicament in the future. It seems quite possible that such an arrangement can be located institutionally in one of the regional bodies (e.g. Caribbean Development Bank) responsible for providing finance for regional economic development; in this way, debt relief measures can be combined with longer term programmes for economic reconstruction.

CONCLUSION

Any proposals geared towards alleviating the external debt burdens of LDCs without impairing their independent development initiatives are to be supported. Although in real terms, the results of UNCTAD proposals have not been spectacular, it would be mistaken to reject them as totally ineffectual. Caribbean countries, as indeed, all LDCs should recognise the urgent need for their immediate implementation and actively pursue these objectives. However, it is very crucial that LDCs external indebtedness be identified as only one manifestation of a serious structural mal-functioninc in the international capitalist system which has jeopardized LDCs internal development. The broader response has been, and continues to be LDC's demands for fundamental structural changes in the international economy through a new international economic order (NIEO). These demands include proposals for fairer conditions of international trade, better arrangements for foreign aid and foreign indebtedness, greater control over natural resources, wider access to science and technology, and a number of others related to social, political, and institutional issues.[26] Although we agree that NIEO "is not the sufficient condition of the creation of a better world,"[27] LDCs can hardly deny its positive objectives and must support its demands. In addition to supporting NIEO proposals, LDCs vied to introduce certain policies to alter their internal conditions. For example, this requires increased national ownership and control of important resources, systematic economic planning, regulation of foreign trade, and the broadening international economic relations to include the world socialist community.

Many of the proposals outlined in our paper cannot be classified as strictly "economic". They, of necessity, have tremendous political significance. In the final analysis, neither central bankers nor university academics can solve these problems; their solution depends largely on the country's political milieu, the objectives of the political directorate, and ultimately on the class or classes which fashion the country's development.

* Essence of problem - foreign exchange shortage. This a problem to be solved - need new export earners - short duration not require much foreign-
* Are there new options
* Too high a level of generality
* Is problem of debt or a result of direct invest - cap. system; where debt problem start? What caused it?
* Indicate steps in process of solution e.g. if one is rejecting conditionality
* Solutions, when diff countries take diff positions -
* What of the future - expect period of heavy foreign inflows and prospect

TABLE 1

EXTERNAL PUBLIC DEBT OF 87 NON-OIL EXPORTING LDC's*

US$ millions 1973-1977

	DEBT OUTSTANDING (Including undisbursed)	DEBT OUTSTANDING Disbursed only	COMMITMENTS	NET DISBURSEMENTS
1973	100,812	73,427	21,186	9,665
1974	130,403	90,670	34,213	15,146
1975	153,688	109,984	34,997	21,747
1976	186,604	134,693	42,337	24,408
1977	n.a.	164,500(a)	47,600	27,200(a)

*This term is used by the World Bank

n.a. - not available

(a) - party estimated

Sources: World Bank *World Debt Tables* Volume I, Washington: World Bank, 1978.

TABLE 2

CREDITOR COMPOSITION OF EXTERNAL PUBLIC DEBT OF 87 NON-OIL-EXPORTING DEVELOPING COUNTRIES, BY AMOUNT AND PERCENTAGE

	1975		1976	
	US$ millions	%	US$ millions	%
Debt Outstanding (disbursed only)				
Governments	47,121	42.8	54,029	40.1
International organizations	17,925	16.3	21,588	16.0
Financial markets	34,855	31.7	47,915	35.6
Suppliers and other private	10,085	9.2	11,161	8.3
Total	109,986	100.0	134,693	100.0
Commitments				
Governments	11,811	33.8	13,044	30.8
International organizations	7,395	21.1	7,714	18.2
Financial markets	12,910	36.9	18,241	43.1
Suppliers and other private	2,881	8.2	3,340	7.9
Total	34,997	100.0	42,339	100.0

Source: as for Table 1

TABLE 3

EXTERNAL DEBT SERVICE RATIOS, SELECTED LDCs 1975 and 1976 (%)

Country	1975	1976
Ghana	3.3	4.6
Guinea	10.5	20.8
Mauritania	20.2	37.0
Sudan	18.3	16.7
Argentina	21.4	18.3
Barbados	1.7	1.6
Chile	28.6	32.9
Guyana	4.8	10.4
Honduras	4.8	6.3
Jamaica	6.6	11.1
Mexico	25.0	32.3
Peru	23.4	21.6
Trinidad and Tobago	1.2*	2.6*
Uruguay	45.9	29.2
Egypt	21.5	17.6
Bangladesh	17.9	13.4
Sri Lanka	20.2	20.1
Israel	18.9	12.1

*The service payments for these years reflect prepayments; without these the ratios would be 0.8% for 1975 and 0.8% for 1976 (World Bank note).

Source: As for Table 1

TABLE 4

EXTERNAL PUBLIC DEBT OUTSTANDING, DISBURSED, OF 87 NON-OIL EXPORTING LDC's, BY REGION 1975-1976

(US$ millions)

REGION	YEAR 1975	%	YEAR 1976	%
Africa, South of the Sahara	11,391	10.3	13,327	10.3
East Asia and Pacific	11,265	10.2	14,547	10.6
Latin America and the Caribbean	39,849	36.2	50,841	37.7
North Africa and Middle East	8,629	7.8	10,785	8.0
South Asia	20,679	18.8	23,177	17.2
More advanced Mediterranean Countries	18,171	16.5	21,417	15.9
Total	109,984	100.0	134,693	100.0

Source: Compiled from data in World Bank, World Debt Tables Volume I, Washington: World Bank, 1978, p. 8.

TABLE 5

SELECTED EXTERNAL DEBT STATISTICS FOR CARIBBEAN COUNTRIES, 1975

(US$ million)

STATISTICS/COUNTRY	JAMAICA	GUYANA	BARBADOS	TRINIDAD & TOBAGO
Debt outstanding - all lenders (disbursed only)	660.8	256.4	27.9	150.1
Debt outstanding - all lenders (including undisbursed)	815.8	380.6	47.9	207.5
" " - official	322.2	245.8	27.6	136.0
" " - (government)	(165.0)	(192.5)	(18.5)	(45.5)
- (International Organizations)	(157.2)	(53.2)	(9.1)	(90.5)
" " - private lenders	493.6	134.8	20.3	71.5
Total Debt Service - all lenders	77.1	17.7	3.8	27.1
" " " - official	17.3	7.4	0.2	8.4
" " " - (government)	(11.6)	(6.2)	(0.1)	(3.9)
" " " - (International Organizations)	(5.7)	(1.2)	(0.1)	(4.5)
" " " - private lenders	59.8	10.3	3.6	18.6

Source: Compiled from data in World Bank, World Debt Tables Volume, World Bank, 1978.

TABLE 6

SELECTED EXTERNAL DEBT STATISTICS FOR CARIBBEAN COUNTRIES, 1976

(US$ million)

STATISTICS/COUNTRY	JAMAICA	GUYANA	BARBADOS	TRINIDAD & TOBAGO
Debt outstanding - all lenders (disbursed only)	854.5	324.0	28.8	99.1
Debt outstanding - all lenders (including undisbursed)	1088.8	406.7	55.6	150.1
" " - official	560.4	238.6	35.8	132.4
" " - (government)	(376.3)	(185.6)	(17.2)	(39.8)
" " - (International Organizations)	(184.0)	(53.0)	(18.6)	(92.6)
" " - Private lenders	528.5	168.0	19.8	17.7
Total Debt Service - all lenders	105.4	32.1	3.3	71.8
" " " - official	17.4	9.1	0.3	12.6
" " " - (government)	(10.7)	(7.7)	(0.1)	(6.8)
" " " - (International Organizations)	(6.7	(1.4)	(0.2)	(5.7)
" " " - private lenders	88.0	23.0	3.1	59.2

Source: As for Table 5.

TABLE 7

EXTERNAL DEBT OUTSTANDING (DISBURSED ONLY):
ENGLISH-SPEAKING CARIBBEAN COUNTRIES (1975-1976)
(% Breakdown by Country)

Country/Year	1975	1976
Barbados	2.5	2.2
Guyana	23.4	24.8
Trinidad & Tobago	13.7	7.6
Jamaica	60.3	65.4
Total	100.0	100.0

Source: As for Table 5.

FOOTNOTES

1. Howard M. Watchel, The New Gnomes: Multi-national Banks in the Third World. Transnational Institute, Washington D.C., U.S.A., 1977.

2. Watchel, op. cit., p. 14.

3. World Bank, World Debt Tables Vol. I, World Bank, Washington D.C., 1976, p. 17.

4. See Richard L. Bernal, "Jamaica's External Debt and Its Implications", National Planning Agency, 1977 (mimeo.) p. 40.

5. The countries listed as Latin America and the Caribbean for World Bank statistical purposes are: Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, (Ecuador), El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, (Trinidad and Tobago), Uruguay, (Venezuela). The parenthesis refers to oil exporters.

6. For further details, see World Debt Tables Vol. I, 1976, op. cit., pp. 7-8.

7. For Jamaica, see National Planning Agency, Economic and Social Survey 1978, Kingston, Jamaica, p. 2.14; for Guyana, see Bank of Guyana, Annual Report 1971, Georgetown, Guyana, and Guyana Agricultural Workers Union, "The Economic Crisis in Guyana", Georgetown, 1978.

8. B. Gosovic, UNCTAD Conflict and Compromise, A.W. Sijthoff International Publishing Co., Netherlands, 1972, p. 9.

9. L. Pearson et al, Partners in Development: Report of the Commission on International Development, Praeger Publishers, New York, 1969.

10. Ibid., pp. 15-19.

11. Rudolph A. Peterson, Chairman, Report to the President from the Task Force on International Development: U.S. Foreign Assistance in the 1970's: A New Approach. Washington D.C., March 1970, pp. 33-34.

12. See United Nations, Proceedings of the U.N. Conference on Trade and Development, Fourth Session, Nairobi. Vol. I. Report and Annexes, U.N., New York, 1977, p. 84.

13. For further details see Paul M. Watson, Debt and the Developing Countries. New Problems and New Actors. Overseas Development Council, Washington D.C., U.S.A., 1978, pp. 62-64.

14. U.S. Dept. of Treasury, Report on Developing Countries External Debt and Debt Relief Provided by the United States. Government Printing Office, Washington D.C., 1977, p. 33.

15. See Joint Statement by socialist countries in U.N. Proceedings, op. cit., p. 162-164.

16. See U.N., UNCTAD V - Arusha Programme for Collective Self Reliance and Framework for Negotiations, Manila, May 1979.

17. Ibid., p. 59

18. Ibid., p. 59.

19. David O. Beim, "Rescuing the LDCs", Foreign Affairs, Vol. 55, No. 4, July 1977.

20. See Cheryl Payer, The Debt Trap: The International Monetary Fund and the Third World. Monthly Review Press, New York, 1974, pp. 201-203.

21. For further details, see Ronald T. Libby, "External Co-optation of a less Developed Country's Policy Making: The Case of Ghana, 1969-1972", World Politics, October 1976, 29:1, pp. 86-87.

22. For a comprehensive treatment of Third World countries' experience with the IMF, see Cheryl Payor, The Debt Trap, op. cit. For details of the recent Jamaican experience with IMF, see Mark Figueroa, "The IMF Strategy: What it has accomplished, why it cannot work and what is the alternative", SOCIALISM! Vol. 6, No. 3, June 1979 pp. 23-42; for discussion on the Guyanese experience, see G.A.W.U. "The Economic Crisis in Guyana", op. cit., and University of Guyana Staff Association (U.G.S.A.), "The IMF, The Economic Crisis and the Working people of Guyana: Towards a Solution," paper presented by UGSA to Trade Union Congress (TUC) Conference, 11th-12th November 1978, Georgetown, Guyana.

23. For a detailed discussion, see Watchel, The New Gnomes, op. cit. pp. 11-17; and World Bank, World Debt Tables Vol. I, 1976, op. cit.

24. World Bank, World Development Report, 1979, World Bank, Washington D.C., August 1979, p. 33.

25. UNCTAD V - Arusha Programme, op. cit., p. 60.

26. One of the most comprehensive treatments of NIEO demands is presented in Ervin Laszlo, Robert Baker, Jr., Elliott Eisenberg, and Venkata Raman, The Objectives of the New International Economic Order, Pergamon Press, New York, U.S.A., 1978.

27. Ibid., p. xxiv.