

Foreword by the Commonwealth Secretary-General

The decision of Commonwealth Heads of Government at their New Delhi Meeting in November 1983 to establish an expert group on the debt problem was a perceptive one. There were signs of economic recovery, interest rates were coming down and, although the debt burdens of developing countries remained severe, conventional opinion was still that the problem was manageable.

Now, nine months later, the international banking system obviously faces great danger. One major American bank has had to be rescued by the public authorities. The pace of the recovery has remained slow outside the US. Interest rates have again begun to rise from levels already high in real terms. Commodity prices have fallen to levels which could suggest future recession. Protectionist pressures show no signs of easing. All of this raises serious doubts whether developing countries can reasonably be expected to service their debt and, therefore, whether the banking system, already weakened, can avoid major injury if not collapse.

Patched-up arrangements—rescheduling of bank debts, new lending to help pay interest on outstanding debt, IMF loans on conditions of severe austerity for debtor countries—have, for the moment, bought time. But the source of instability remains and some of the short-term solutions may have deepened it. One of the worst features of the situation is that many developing countries are not experiencing debt relief commensurate with the painful austerity measures they have been forced to adopt. Renewed external pressures through higher interest rates and lower commodity prices are taking place at a time when severe adjustment strains are becoming economically and socially unbearable. The capacity of developing countries to comply with demands by the IMF and banks for austerity measures has political limits. In the final analysis, these limits are represented by unrest and the threat of revolution. Before that point is reached, debtor countries will obviously refuse to meet the terms and conditions of contraction

demanded of them; there is growing evidence that that point is fast approaching. In some areas of direct and immediate concern to individual major industrialised countries, consciousness of this threat of instability has led to more imaginative policy. Such vision is now needed over a wider international field.

In many quarters, among bankers and Governments, a greater realism is emerging: recognition that current ad hoc policies are inadequate; assurances that 'the problem is manageable' not only sound unconvincing but also risk being counterproductive. Actions such as interest 'capping' and multi-year rescheduling are now being contemplated. Frankly, these 'solutions' are not commensurate with the scale of the problem. Moreover, the international community has been almost wholly indifferent to the difficulties of the poorest countries, especially those in Africa—many in the Commonwealth—for whom indebtedness is superimposed on already disastrous economic circumstances. Some have reached the stage where access to credit even for the most essential imports is being denied. These low-income countries do not individually have a major impact on the world economy or the banking system; that is why the response of the rich to their debt problem has been one of such benign neglect. Collectively, however, their weakness and poverty is an inescapable problem for the international community no less than for themselves.

In the end, action will have to be based on the reality of interdependence between developed and developing countries. This interdependence is currently being underlined by the effect on jobs and production in industrial countries of import cuts in indebted countries, imposed by forced adjustment. The current fragility of the whole Western banking system and the risk it poses for the whole international financial system are other strong reminders of this interdependence. So is the threat of political instability. There is a collective task, in the collective interest.

In approaching this important mandate from Heads of Government, I am pleased to have been able to bring together a most distinguished Commonwealth Expert Group whose members have all had close involvement intellectually and practically with the debt problem and related international financial affairs. Its Chairman, Lord Lever of Manchester, is a world authority on these matters. I am most grateful to them all.

The Expert Group sets as a major short-term objective the resumption of positive net transfers of resources to seriously indebted developing countries to permit orderly debt service and a resumption of growth. Its members do not believe that present measures are adequate to achieve this objective. In the light of this, and taking into account the

special financing problems faced by the poorer countries and the systemic need for larger, more stable and better balanced capital flows to developing countries, the Expert Group calls for international cooperative action and recommends specific measures which form the basis of a programme of action.

It is my hope that this Report will make a significant contribution to policy discussions on the debt problem. It is to be considered first by Commonwealth Finance Ministers at their Meeting in Toronto in September 1984. In its topicality and coverage, however, the Report has relevance beyond the Commonwealth. I take this opportunity, therefore, to commend it to a wider international community.

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Letter of Presentation

Marlborough House,
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27 July 1984

H. E. Mr. S. S. Ramphal,
Commonwealth Secretary-General,
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London, SW1.

Dear Secretary-General,

You appointed us as a group of independent experts from Commonwealth countries to examine the developing country debt problem in all its aspects, in accordance with the request by Commonwealth Heads of Government when they met last November in New Delhi. We herewith present our Report, which we have signed in our personal capacities, and not as representatives of the governments, organisations, or countries to which we belong.

We are firmly of the view that measures taken to-date to deal with the debt problem are not adequate. Substantive action is now required and we trust that our Report sufficiently emphasises the urgency of this need.

We are grateful to you for giving us the opportunity to make this contribution. We would like to express our thanks to your staff for their ready administrative and technical support.

Yours sincerely,

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Lord Lever of Manchester

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