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I. MAIN FINDINGS AND RECOMMENDATIONS

1. As the United Nations celebrates its fortieth anniversary, the Committee called for a rededication to the objectives of multilateral economic co-operation.
2. The Committee expressed profound concern at the stresses and strains facing multilateral economic co-operation and the consequent grave danger of a drift away from order, stability, predictability and rules, and towards greater arbitrariness, uncertainty and the exercise of power, which poses a particularly menacing threat to the weakest members of the international community.
3. The contribution of multilateral co-operation to post-war economic progress has been impressive, but major changes in the world economy have created new challenges and problems. The world has become more pluralistic; extensive micro-links between economies have been established; increased interdependence has left national economies more vulnerable to other countries' policies; increased capital mobility has limited national control over domestic monetary affairs and exchange rates; and political mechanisms for the joint pursuit of agreed global economic objectives have become more complex.
4. Existing institutions have struggled to adapt to the changing needs and challenges but their efforts have sometimes been flawed and, increasingly, have not been enthusiastically encouraged by national Governments. Turning away from previous commitments to multilateralism, countries pick and choose which particular multilateral obligations seem to them to be less important than others. Bilateral, regional and bloc arrangements have a role in international co-operation, but they are increasingly being used by major countries as substitutes for multilateral arrangements and sometimes to increase control over those arrangements.
5. Major new challenges are emerging for the international system which would require increased multilateral co-operation in many areas, but the issue which Governments are likely to pay closest attention to is the transformation under way in the world's industrial and financial structure. Deep sectoral shifts are under way in many economies. Without restoration of rapid growth to ease the painful process of adjustment and economic change, many issues are likely to become highly political disputes over how the costs and benefits of change should be shared, domestically or internationally.
6. In its recommendations, the Committee focused on four urgent issues: the risk of disintegration of the trading system; instability and uncertainty in the international monetary and financial system, debt and development finance, and the crisis in Sub-Saharan Africa. This primary focus on multilateral economic co-operation should not be taken as lack of concern for the appropriateness of national policies, whether in developing countries or in the industrialized world. In many developing countries there can be little prospect of future development unless there is major domestic policy reform complementing a more supportive international environment.

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7. The Committee agreed that the danger of escalating trade protectionism and discrimination cannot be over-emphasized.

8. The Committee endorsed a number of the major recommendations of the Leutwiler report to GATT entitled Trade Policies for a Better Future. 1/ It supports the proposal for the launching of a new round of GATT negotiations; underlined the report's recognition of the link between trade issues and current global macro-economic and financial problems and endorsed the call for parallel efforts to resolve them. Expansion of trade in services, and the exploration of whether multilateral rules can be appropriately devised for this sector could also be elements in the agenda. Success of a new round depends on the participation of developing countries, which should have assurances that the unfinished business of earlier agreements would first be carried forward and that their interests would be a major concern in a new round. The Committee also endorsed the recommendation that a permanent ministerial-level body should be created as part of GATT.

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9. The Committee emphasized the adverse consequences for the world economy of volatile exchange rates and prolonged currency misalignments. An orderly monetary system requires responsibility on the part of the key currency countries. It therefore supported moves towards greater co-ordination of macro-economic policies. Those moves should be undertaken under the rubric and with the active involvement of the International Monetary Fund (IMF) whose consultation and surveillance procedures should be considerably strengthened.

10. The current system for the privatised provision of liquidity has proved unstable. At the international level means will have to be found for managing and improving the supply of liquidity in the global interest. Efforts in that direction could follow from a revision and expansion of the activities of IMF. The aim of the provision of liquidity and the policy conditions attached should be to pace and structure adjustment so as to minimize the cost in terms of growth, employment and poverty.

* * *

11. It is far from certain that the debt crisis has been contained. Severe adjustment in many developing countries has produced substantial trade surpluses. The political viability of such a situation cannot be taken for granted. A broader sharing of the adjustment burden is required if the risks of unplanned and mutually damaging outcomes of current problems are not to grow with time.

12. The Committee recommended the establishment of a consultative process among debtors and creditors within the context of broader efforts to construct a more orderly long-term basis for the provision of liquidity and development finance. Multi-year rescheduling, which has been adopted for a few countries, must be greatly broadened and should include debt from official sources. Such relief measures must be co-ordinated with other policies such as aid and other financial flows.

13. Recent experience and medium-term projections of marked reductions of capital flows imply cutbacks in developing countries' growth. This is unacceptable. The Committee urged a renewed effort, led by the multilateral banks, to restore levels of external finance and calls for a reinforcement of the stabilization and financing roles of IMF and the World Bank by providing them with expanded resources.

* * *

14. While the drought has eased in some parts of Africa and there has been a gratifying response to the need for relief through the United Nations, the World Bank and bilateral sources, the emergency problems are far from being resolved and the longer-term problems remain without the major international effort required.

15. African Governments are themselves making a great effort to improve domestic policies. Those efforts must continue. The international environment and international assistance also have crucial roles to assist rehabilitation and longer-term development. A renewal of international commitment to assist the poorer countries, particularly those in sub-Saharan Africa, in their efforts to help themselves remains an urgent requirement.

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16. As a follow-up to its earlier recommendations on monetary and financial issues, the Committee re-emphasized the need for constructive discussions and negotiations. The recommendation made in the Committee's previous report in 1984 for a small, manageable and representative deliberative process to prepare the way for negotiations and action is reiterated. 2/ The case is now more urgent and the situation more propitious for such a process especially taking into account the possibility of trade negotiations. Priority issues for any such process would include:

(a) Macro-economic policy surveillance and co-ordination, crisis management, and the exchange rate régime;

(b) International liquidity and the role of IMF;

(c) Development finance and the role of the World Bank;

(d) The trade and investment régime.

* * *

17. The essential task of renewal of commitment to multilateralism falls on Governments. But the United Nations system itself carries a heavy responsibility for making that act of renewal more likely through the strengthening of its own processes and the rekindling of faith in the validity of international co-operation. The Committee believes that the Economic and Social Council can play a major role in that respect. But all elements of the United Nations system can and should help Governments to return to the spirit of the Charter. They can do so by a process of self-examination, by readiness to be intellectually creative, by subordinating institutional partisanship to the wider goals and objectives of the United Nations system and, as important as anything else, by bringing increased efficiency and cost-effectiveness to their operations.

18. The turmoil of the world economy during the Great Depression of the 1930s and the calamitous consequences of the beggar-my-neighbour policies of those years created a universal determination to construct a post-war world of co-operation rather than of conflict. It may be that disorder in the international economy must increase before prevailing attitudes can change; but that is not inevitable, and it is not acceptable. Urgent action to strengthen multilateral economic co-operation in response to global needs is a viable option. It is the option that the Committee for Development Planning urged the international community to take.

II. THE CHALLENGE TO MULTILATERALISM: A TIME FOR RENEWAL

A. Introduction

19. Previous reports of the Committee for Development Planning have invariably started with an account of the world economic situation, giving particular emphasis to development. On this occasion, section B below begins by speaking directly to the threat that, in view of the Committee, underpins that situation and in large measure determines the prospects for development. This is done because without awareness of those realities, the search for solutions to current problems will tend to focus on symptoms rather than on the basic ailment - in this case the creeping paralysis that afflicts multilateralism. Moreover, the Committee firmly believes that it is by facing up to that basic condition that Governments can enlarge hope for an enlightened and corrective response to it and to the many other problems it creates or aggravates. Far from accepting, therefore, that the threat to multilateralism portends a darkening fate for mankind the Committee urged that the many manifestations of its damaging implications for development and world economic recovery should strengthen the resolve of the international community to reverse it and to resume the upward path of global co-operation for human betterment. It is against this background of conviction that countries have it within their collective power to overcome the major economic problems confronting the world that, in section C below, the report will focus on some of the imperfections in the current world economic situation and in the condition of and prospects for development.

B. The need for a stronger multilateral response

1. The case for multilateralism

20. The essential case for multilateral co-operation rests on the fact that in an increasingly interdependent world in which the network of economic relations is intensifying, international rules, codes and other policy actions are required to pursue expanding opportunities to advance common and mutual interests among nations. Such co-operation implies a sense of shared responsibility for human welfare - a perception of human solidarity. It also implies acceptance of the need to seek consensus in the international community on collective responses to that responsibility. And at the heart of multilateralism lies the aspiration for an increasingly democratic world. The ultimate objectives of co-operation in the economic sphere are full employment, development, the eradication of poverty and peace. At the international level those objectives call for a predictable and stable international environment in which policies for stabilization, growth and development can be confidently pursued.

21. Yet today multilateral arrangements are under stress and strain. The challenge that multilateralism now faces is, in reality, a questioning of the benefits of international co-operation. It is a questioning encouraged by many factors, some of which are rooted in the experience of international co-operation during the post-war era. But it is also in part induced by the passage of time which has blurred human memory of the degree to which the insensitivity to international co-operation brought the world to economic disaster in the 1930s and to near self-destruction in the war that followed. The need for international co-operation "to save succeeding generations from the scourge of war" seemed axiomatic in 1945. It is not everywhere so acknowledged today, particularly within

the most powerful countries. The United Nations system was conceived as the symbol, and was established as the instrumentality, of international co-operation - for peace and security, for reconstruction and development. As the United Nations approaches its fortieth anniversary, the international system it signifies is under siege.

22. When this Committee was first established 20 years ago, a global consensus on international co-operation for development existed and could be made the unspoken premise of recommendations for action. It is doubtful whether that consensus still holds; certainly, it cannot be taken for granted. The alternative to international co-operation would be a drift towards a more rigid, fragmented and power-dominated international environment, a drift away from order, stability, predictability and rules, towards greater arbitrariness, uncertainty and exercise of power; a drift away from the multilateralist trends of the early post-war era, a return to the anarchy of the 1930s. The Committee for Development Planning is profoundly concerned about this grave and present danger confronting the international community which poses a particularly menacing threat to its weakest members. It calls for a return to the spirit of the Charter of the United Nations and a renewal of faith in not just the value, but the essentiality of international co-operation. It calls for a renewed commitment to multilateralism as a touchstone of human progress, certainly in the area of economic development, but equally over a larger field of peace and security.

23. Despite the strains now faced in multilateral co-operation, it would not be true to say that countries no longer see the value of international co-operation. Thus, although support for multilateralism has weakened, all Governments remain aware that their economic well-being cannot be achieved without international co-operation. Examples abound in such fields as health, environment, food security, technology, trade and even money and finance.

24. The weakening of support for multilateral goals does not mean, therefore, that there is equal scepticism about each and every one of such goals. Even the countries that have fallen furthest behind in complying with such obligations as the United Nations target for official development assistance accept the need for most, if not all, types of technical international co-operation. Indeed, they take initiatives in the direction of promoting certain forms of co-operation. At the recent meetings of the Interim and Development Committees in Washington, efforts were made by some countries to bring about a new round of trade negotiations although the same countries have misgivings about other kinds of multilateral co-operation.

25. What has happened is that, under the pressures created by recent changes in world economic conditions, countries wish to pick and choose which particular multilateral obligations seem to them to be less important than others. The assumption is that at a time of financial stringency, it is possible to economize on one's multilateral commitments. The difficulty, of course, is that what seems a less important obligation to one country may well be highly important to another. It is risky to assume that one can dismantle the obligations that one considers less important without imperiling others to which one attaches high importance.

26. As multilateral co-operation runs into difficulties and as major countries take a narrow view of national interest and the exercise of power and influence, a tempting response is to abandon the multilateral effort and rely purely on unilateral, bilateral, regional or bloc arrangements. Such measures should not be seen as alternatives to multilateral action. The infinite variety and complexity

of the international economic system has much room for sub-groups to find their own forms of co-operation, whatever transpires at the level of global arrangements. The universal multilateral system of the United Nations and its specialized agencies, including IMF and the World Bank, is best seen as providing an overarching framework within which other more narrowly (geographically or functionally) defined systems operate. Bilateral and bloc economic arrangements need not be inconsistent with overall rules and frameworks, nor should they be seen as substitutes for them.

27. Our primary focus upon multilateral economic co-operation should not be taken as lack of concern for the appropriateness of national policies, whether in developing countries or in the industrialized world. On the contrary, the longstanding commitment of the Committee to the pursuit of national policies in support of stable, efficient and non-inflationary growth and development is reaffirmed. In many developing countries there can be little prospect of future development even with the most supportive of international environments, unless there is major domestic policy reform.

28. Dramatic change of economic conditions is inevitable in a growing world economy. For the next generation or so, the international community will live through a transition that exceeds historical experience. Some facets of that transition are already evident; others are only beginning to be understood. One stems from the impact of the demographic momentum now experienced by the world, which is not expected to stabilize until well into the middle of the next century. This momentum will make enormous demands on the provision of physical and social infrastructure and the creation of jobs.

29. A second aspect is the ecological impact of economic activity. Here the concerns range from such global issues as atmospheric accumulation of carbon dioxide and the effects of acid precipitation, to the degradation of local environments, such as the depletion of soils, forests, sources of fresh water and non-commercial fuels.

30. But the issue to which Governments are likely to pay closest attention, because it will most directly affect their daily concerns, is the transformation now under way in the world's industrial and financial structure. A new technological complex has evolved, primarily in the areas of information and communication. Deep sectoral shifts are under way in many economies, in part as a result of the diffusion of those new technologies. Above all, the international financial markets have been transformed beyond recognition as enormous flows move among financial centres in instant response to changing perceptions of their economic prospects and safety.

31. What are the implications of those changes for multilateralism? There is a widespread anxiety on the part of Governments that their economies will be left behind by this transformation, that a new niche which is open for them at one brief period may not be available at some future point in time. Some countries may lack the resources on their own either to seize new opportunities or to overcome constraints. Others, while they may have the requisite resources, may find their efforts undermined by the conduct of other States. In still other cases, the inherent unpredictability attending these changes may deter investment by private industry no less than by Governments. Each of those potential problems suggests a role for multilateralism: to pool efforts where unilateral resources are insufficient; to co-ordinate policies where unilateral measures may negate one another; to provide a framework of transparency where uncertainty prevails.

2. Evolution and erosion of the post-war system of multilateral co-operation

32. The turmoil of the world economy during the Great Depression of the 1930s and the calamitous consequences of the beggar-my-neighbour policies of those years created a universal determination to construct a post-war world of co-operation rather than of conflict. It was widely recognized that the welfare of the international community as a whole, as well as of individual countries, depended upon concerted efforts to achieve and maintain high levels of employment, to free the channels of trade and to build an international monetary and financial system that would serve the needs of all. Accordingly, new institutions were established to give effect to these ideas.

33. There were shortcomings, notably in the field of international trade, where it proved impossible to establish an international organization with the degree of competence that most countries considered necessary. Moreover, the machinery created, both in the trade and financial fields, was not originally well adapted to the requirements of a new world of decolonization and development. But there can be no question that the philosophy and practice of international economic relations during the early post-war years reflected a general recognition that international economic co-operation, properly viewed, was in the interests of all countries and peoples. The pre-war experience had made it clear that even the largest and most powerful countries were vulnerable to discriminatory restrictions in the field of trade and payments and that there were no victors in international economic warfare but only losers.

34. There was also a growing sense that the more developed members of the international community had a profound interest in helping to raise the standards of living in the low income countries. The significance of altruistic motives in the growth of aid programmes should not be underestimated. But it was also apparent that poor countries make poor markets and that resources devoted to the development process would yield concrete economic benefits to those providing aid as well as to those receiving it.

35. The context in which international economic institution-building took place after the Second World War was quite exceptional. Private international capital movements had been disrupted by the depression and largely halted by the war. Most of the countries in what would come to be known as the third world had yet to attain independence. The United States, by far the predominant economic power at the time, was frequently both willing and able to consider its gains from economic arrangements in the light of broader economic and political implications for the viability of the entire international system. While substantial differences in policy preferences continued to exist among the industrialized countries, there prevailed an international consensus on macro-economic policy along more or less Keynesian lines.

36. Since then the world has changed in many fundamental ways. For one thing, the international community is now far more pluralistic than it was 40 years ago. More than 100 new sovereign States have emerged. Europe, Japan and the newly industrializing countries account for a much larger share of world economic activity. As a result, political decisions on matters of economic policy that could have wide international ramifications are now made in a variety of geographic locations. And there has been a great increase and diversification in the interests pursued through multilateral co-operation. Second, economies have become far more interdependent. Indeed, the "international" economy has to a significant extent become a global economy.

37. It was the very success of the world economy in the 1950s and 1960s that brought those major changes in its makeup. Revolutionary changes in transport and communications systems, liberalized trading arrangements and the relaxation of foreign exchange controls in the industrialized market economies generated growth in the international exchange of goods, services and capital that far outstripped growth in production. As a result, not only are there increased macro-economic linkages among economies, but extensive microlinks have also been established. In the area of production, there is world-wide sourcing and marketing by transnational firms and greatly increased intra-industry trade, intra-firm trade and trade in intermediate products. Such increased interdependence or, as some would have it, "interrelatedness" has obviously been associated with important benefits to individual nations. But it has also left national economies more vulnerable to exogenous influences originating in other parts of the world economy. In particular, domestic incomes and employment have become more vulnerable to other countries' trading and industrial policies. International capital flows have limited national Governments' control over domestic monetary affairs and exchange rates. In some instances, international labour flows have generated new domestic tensions.

38. The issues of trade, money, and finance have also become more interrelated. The restoration of international financial stability depends, in large part, on debtor countries' success in expanding exports and this requires that the industrial countries keep their markets open. Conversely, a robust trading system depends on sustainable non-inflationary growth which is underpinned by adequate and reasonably smooth international financial flows.

39. Thus the world economy has evolved in such ways as to increase both the breadth and the depth of international economic interdependence, while at the same time the required political mechanisms for the joint pursuit of previously agreed global economic objectives have become even more complex. And to this emerging system have been added the major shocks of the 1970s and early 1980s - two major oil price shocks, global price inflation, important changes in the structure of relative prices and costs, and two severe recessions. The 1970s also saw rising rates of unemployment in the industrialized countries, and slower overall global growth. Those shocks and trends created strains not only in the world economy, but also in the system of multilateral economic co-operation.

40. The oil price shocks called attention to systemic risks in the existing arrangements for the channelling of oil from a relatively few supplying countries to a large number of consuming countries. They also contributed to a major shift in international lending patterns with private banks assuming a much larger role in the provision of international credit than they previously had done. Stagflation in the industrialized market economies confounded their economic policy-makers and contributed to the breakdown of the previous international (Keynesian) consensus over the nature and appropriateness of macro-economic policies. Many Governments in industrialized countries applied themselves primarily to the control of inflation, while others accorded priority to combating unemployment. The recessions were everywhere to some extent met with automatic fiscal stabilization, as tax revenues fell and expenditures increased; but the efficacy of independent monetary policy was now limited, or complicated, by highly interest-responsive international capital flows centred on newly expanded Eurocurrency markets. Anti-inflationary policies in major industrialized countries brought government budget cuts and high interest rates, both of which further complicated efforts at international economic co-operation, and particularly, that part of it directed at international development. Pressures for short-term solutions at the same time

generated inward-oriented trade measures to protect domestic employment, in frequent disregard of international obligations or effects. International disagreements over the appropriate mix of monetary and fiscal policies, exchange rates and short-term macro-economic objectives - in circumstances of unprecedented economic interdependence - did little to maintain or restore the spirit of economic co-operation characteristic of the earlier post-war years.

41. Failure to achieve sufficiently rapid results, disillusion or disagreement over political issues with respect to the developing countries and the domestic retreat from welfare-state approaches all contributed to an erosion of industrial countries' previous support for developing countries' aspirations in the world economy. The "development consensus" of the 1950s and 1960s could no longer so easily be assumed.

42. Governments have responded to the pressures of the past decade in ways they have seen to be politically supportable and economically effective over a relatively short time horizon. The international implications of domestic measures have not in recent years typically carried much domestic political weight. Nor have the possible longer-run detrimental effects of actions that seem to bring short-run pay-offs. Macro-economic policies and sector - or industry - specific measures have been undertaken unilaterally, bilaterally, or among small groups of co-operative countries, regardless of wider multilateral forums or agreements. The larger and more powerful the country, the greater its capacity for effective pursuit of its own objectives in disregard of international feedback effects.

43. The existing multilateral institutions have struggled to adapt to the needs of changing world political and economic realities, but their efforts have sometimes been flawed and, increasingly, not very enthusiastically encouraged by national governments. Rather, some of the most powerful countries seem to be turning away from a previous commitment to multilateralism. But the reasons for erosion of support for multilateral co-operation are many and various. The great impulse to international co-operation provided by the depression of the 1930s and the Second World War has long since faded away. Power relations and diversification of interests has made consensus at the global level more difficult to achieve. Moreover, industrial countries and countries in parts of the developing world have begun to reassess the relationship between the State and the economy. The progressive accretion of social and economic objectives by the state has been slowed and in some countries reversed. Some aspects of the welfare policies of recent decades are increasingly regarded as sources of market rigidities which hamper adjustment to technological change and make for sluggish growth and protectionist pressures.

44. There is thus greater concern with the role of incentives and responsive price structures. At the same time, intellectual consensus on how economies work has broken down. Consequently, the international consensus on principles of development and macro-economic management has all but vanished, but no new one has emerged to take its place. This has had direct consequences for multilateral arrangements. In the absence of a shared understanding on policies, the basis for multilateral co-ordination among countries tends to erode. Moreover, the new inclination in many industrial countries to check public expenditures for social welfare purposes constrains both their willingness and ability to contribute to international development programmes.

45. Finally, as governments have had to make difficult economic and social adjustments to the unanticipated shocks and to the emerging structural changes in

the international division of labour, international economic conflict has increased. If, as many expect, the world economy of the 1980s continues to grow relatively slowly, those problems will continue to pose major challenges to policy-makers. Without restoration of rapid growth to ease the painful process of adjustment and economic change, many international economic policy issues are likely to become highly politicized disputes over how the costs and benefits of change should be shared, domestically and internationally. Stability and prosperity in the world economy historically have depended on international consensus, co-operation and leadership, all of which have eroded in the last 10 years. This erosion raises pressing questions about the appropriate policies, rules and institutions needed to guide the international system through a difficult time. In the following section some of the major challenges to multilateral co-operation at the present time are examined.

3. Four major challenges

46. Effective multilateral economic co-operation will be particularly necessary to meet four immediate challenges to the world community:

(a) The risk of disintegration of the trading system;

(b) Instability and uncertainty in the international monetary and financial system;

(c) Debt and development finance;

(d) The crisis in sub-Saharan Africa.

(a) The risk of disintegration of the trading system

47. The seriousness of the present slippage towards trade protectionism and discrimination cannot be over-emphasized. Foreign trade - and investment - are at the core of the international economy. All countries benefit from it and some are totally dependent thereon.

48. It is increasingly recognized that trade issues are closely linked to the financial and monetary issues that loom so large in the world's current economic disequilibria. Large swings in key currency exchange rates subject trading partners to great uncertainties about long-run comparative advantage and appropriate investment strategies.

49. When currencies are over-valued, protectionist pressures increase and trade barriers tend to take the form of quantitative restrictions. When they are undervalued, inflationary pressures build up and ultimately uncompetitive industries are encouraged. When access to markets is denied them, debtors find difficulty in servicing their debts. When interest rates rise unexpectedly export earnings must be diverted from import demands to debt service with costly effects for both the local and the world economy.

50. The current proliferation of trade barriers, damaging enough on its own, must therefore be seen in the context of the general need to restore international financial stability and sustained economic development. The erosion of the GATT system threatens to eliminate the last vestiges of order in world trading arrangements. Calls for a roll-back or standstill may continue to be well received

in principle, but they are unlikely to be effective in the absence of more concrete steps.

51. The Leutwiler report to GATT, entitled Trade Policies for a Better Future, recommended a sensible programme for moving forward on the major issues. The main elements include increased openness and surveillance of trading policies; a timetable for bringing existing voluntary export restraints, orderly marketing arrangements and discriminatory import restrictions, including those in textiles and clothing, into conformity with GATT rules; improvement and clarification of rules and codes on subsidies and non-tariff distortions of trade; clearer and fairer rules governing agricultural trade; emergency "safeguard" protection only in forms that are non-discriminatory, time limited, linked to adjustment assistance and subject to continuing surveillance; and strengthened dispute settlement procedures.

52. The Committee endorsed those recommendations. It also supported the proposal for the launching of a new round of GATT negotiations - a round directed primarily towards the strengthening of the multilateral trading system and a further opening of world markets. Expansion of trade in services and the exploration of whether multilateral rules could be appropriately devised for this sector are also important elements in its agenda. The Committee endorsed as well the recommendation that a permanent ministerial-level body be created in the GATT. Above all, it strongly endorsed its call for recognition of the link of those trade issues to the effective resolution of current and prospective global macro-economic and financial problems.

53. For a new GATT Round to be successful, it is necessary that developing countries participate more actively than in the past. For that to occur they must have assurances that the unfinished business of earlier agreements will first be carried forward and that the agenda of a new round will take adequate account of their concerns. Clearly, traditional approaches, concepts and positions on all sides require revision if the trading system is to meet the needs of the times. The logical link between trade and monetary/financial issues demands that an effort be undertaken to restore the health of the international monetary and financial system in parallel with any GATT Round.

(b) Instability and uncertainty in the international monetary and financial system

54. The international monetary and financial system is now profoundly different from that envisaged by the architects of the original Bretton Woods Agreement. The re-emergence of large-scale private international financial flows in response to payments liberalization and the growth of the Eurocurrency markets have essentially privatised international monetary arrangements. International liquidity is now acquired largely by borrowing in the market, and key currency exchange rates are determined primarily in short-term financial markets rather than by trade conditions and official intervention.

55. The volatility of exchange rates in this system has generated uncertainty and disruption, particularly for the poorest countries which have been least able to protect themselves against it. Prolonged exchange rate misalignments have also impeded the orderly adjustment of international imbalances. An orderly monetary system requires an element of responsibility on the part of the key currency countries. The Committee, therefore, supported moves towards greater co-ordination

of their macro-economic policies, as long as this is aimed at maintaining high levels of growth and employment. Such action is capable of benefiting the world economy as a whole. The world-wide implications of those countries' economic policies, however, necessitate that such co-ordination should also be a matter for discussions at international bodies. The growing tendency for decisions on these and other matters of world-wide significance to be taken solely on the basis of consultations among a few major powers must be resisted. Efforts towards policy co-ordination should be undertaken under the aegis and with the active involvement of the IMF. More effective IMF surveillance of industrial countries' policies has long been an important aspiration in the international community. The limited effectiveness of previous consultation and surveillance procedures within the IMF, OECD and other bodies suggests that such new IMF arrangements will have to be considerably more forceful in the future.

56. The current system for the privatized provision of international liquidity has proved unstable. Efforts in the direction of managing and improving the supply of liquidity at the global level must be undertaken within the framework of the mandate of IMF. In the meantime, the manner in which the Fund has played its role as a source of liquidity should continue to be reviewed. Friction between the Fund and its members occurs, as experience has shown, quite frequently. The appropriate balance between the provision of balance-of-payments finance and domestic adjustment varies with individual circumstances. The aim of the provision of liquidity and of any policy conditions must be to pace and structure adjustments so as to minimize the cost in terms of growth, employment and poverty. Developing countries have only limited influence over the general policies of the international financial institutions and feel that they lack recourse to appeal when conflicts arise.

(c) Debt and development finance

57. There has been some inclination to believe now that the immediate debt crises have been contained, that successful ways of continued "muddling through" have been found. In the view of the Committee, this is far from certain. Persistent external and internal imbalances in the large industrial countries raise doubts about the sustainability of the recovery in the OECD countries. A precipitant decline in the value of the dollar and a slow-down in capital flows to the United States may produce a sharp increase in dollar interest rates which would again make the situation acute. And the possibility of abrupt changes in the price of oil cannot be discounted. The impact of the recovery today has, in any case, been uneven and it has not helped the large majority of debtor countries which depend on a few primary commodities for export earnings, and on official sources for financial flows, as tends to be the case in Africa.

58. Adjustment in Latin American debtor countries has produced substantial trade surpluses. The sustained political viability of such situations cannot, however, be taken for granted. It is, in any case, surely premature and inappropriate for developing countries to be returning real resources to industrialized ones at this stage in their development.

59. Taking a longer view, the experience of rapid debt expansion in the 1970s, and subsequent financial paralysis and shock in the early 1980s, must raise further questions about the adequacy of the international monetary and financial system. The challenge posed by the debt problem is not merely that of the management of crises or potential crises. It must surely now be possible to achieve greater security and less volatility in international financial conditions. Unless a

broadly based sharing of the adjustment burden is sought, the risks of unplanned and mutually damaging outcomes to current debt problems grow with time. A consultative process among debtors and creditors must be established in the context of broader efforts to construct a more orderly long-term basis for the provision both of liquidity and development finance. In this context, multi-year rescheduling has been an important new development, although it has been confined to only a few cases. The banks that have already adopted a package of improved terms involving reduced charges, rescheduled principal through 1990 and stretched out loans for a few Latin American debtor countries, should extend similar packages to other debtors, large and small, that undertake serious adjustment programmes.

60. Multi-year rescheduling ought also to be undertaken for those debtor countries whose debt is primarily from official sources - the low-income countries, especially those in Africa. A possible approach would be to use existing consultative groups or aid consortia to examine on a multi-year basis the national priorities, investment needs and economic and financial prospects of the debtors; and assess donors' willingness to provide new aid commitments for long-term adjustment programmes to be monitored by the World Bank or other international agencies.

61. Recent experience and medium-term projections of the likely future of financial flows imply an urgent need to reinforce the stabilization and development financing roles of IMF and the World Bank, respectively. That requires, above all, that those institutions be adequately funded, pending more fundamental consideration of their capacities to perform possible new roles.

62. In the medium-term, in support of their traditional roles, the policies and practices of IMF and the World Bank, in collaboration, where feasible, need to evolve further to meet the following objectives: facilitation of adjustment processes conducive to sustainable non-inflationary growth, while protecting and improving basic living standards; reinforcement of the catalytic influence of these institutions in mobilizing greater flows of private capital; improvement of external debt management, through the development of better early warning and debt rescheduling procedures; and seeking to ensure that the IMF and World Bank both operate in ways that mitigate cyclical swings and do not reinforce them.

63. The slow-down in commercial bank lending and the stagnation in official development assistance imply marked reductions in flows of development finance over the coming decade. Neither increased flows of direct foreign investment nor increased domestic savings in developing countries can be expected to make up the resulting short-falls in investment. We reject as unacceptable the implied resulting cut-backs in developing countries' growth, and urge a renewed effort, led by the multilateral development banks, to restore acceptable levels of external financing.

(d) The crisis in sub-Saharan Africa

64. The Committee's last report called attention to the need for a special focus on the problems then looming in sub-Saharan Africa. ^{3/} By November 1984, the situation had so gravely deteriorated that we felt obliged to issue an urgent appeal for emergency relief as well as a major attack on the deeper sources of the problem. ^{4/}

65. The crisis in sub-Saharan Africa poses a special challenge to multilateral co-operation. In many countries, emergency situations prevail and, in large parts

of the region and in the lowest-income and least developed countries, development prospects seem bleak for some time to come.

66. The United Nations system is, in principle, well suited to respond to emergency situations, to identify the requirements and to fuse the efforts of bilateral donors and international agencies. The Secretary-General's initiative on Africa and the lead role the United Nations has assumed in the international assistance efforts provide an important opportunity for this body to demonstrate its ability to serve the world community. It also serves as a good reminder of the great value and potential of multilateral co-operation.

67. But the emergency problems are far from being resolved and the longer-term problems remain without the major international effort required. The World Bank has been able to achieve its target of \$1.1 billion for its Special Facility for sub-Saharan Africa. But the target itself, influenced by the unpropitious aid environment was set at a very modest level in relation to needs, and not all the funds are additional or represent multilateral provision. African Governments are themselves making a tremendous effort.

68. Domestic policy reform is obviously essential, and external aid must be oriented towards long-term rehabilitation and development if the present emergency is not to become permanent. The World Bank's Special Facility has great potential importance in this regard. However, it does not make up for the cut in IDA funds, which has severely set back the financing possibilities for poorer countries and has resulted in a decline in the Bank's spending in Africa. At the same time, replenishment of IFAD now takes place at a level representing a cut by one half in funds available for its overall support of agricultural development. The majority of the programmes initiated by IMF in Africa are inoperative, and repayments on earlier advances are likely to exceed new advances in the near future. Developing countries in Africa already show a combined export surplus. The international financing system has not been serving poorer countries well. It is true that finance alone will not solve the problems of African countries, but, as the World Bank has persuasively shown, enormous investments will be necessary there over a long period to come, if the fundamental economic and environmental crises are to be successfully resolved. Beyond financing, a great need at the moment is for African Governments to be provided with technical support to assist them in the great efforts they are making to improve their policies.

69. The challenge to Africa itself, and to the rest of the international community as well, could not be more stark or more urgent. In Africa as a whole, per capita output was lower in 1982 - before the drought - than in 1970 for all but seven sub-Saharan African countries. An inevitable - if shocking - consequence is that 20 per cent of the total population in sub-Saharan Africa is estimated to be undernourished, an increase by 20 million since the early 1970s. General health conditions are bad. Most of the deaths in the drought-stricken areas are due, not to starvation alone, but to the increased vulnerability to infectious disease and the vicious circle created by extreme undernutrition and disease. Children are particularly vulnerable. Child mortality is rising and is twice the average for all developing countries. Even before the famine in Ethiopia, 1,000 children died every day on this continent. What is usually forgotten, however, is that, at least until the recent drastic 20 per cent reduction in output since 1981, the growth in African food production was impressive by the standards of the past and compares favourably even with that of industrial countries today. Unfortunately, the 2 per cent average annual growth of food production was more than swallowed up by population growth, averaging 2.7 per cent per annum and exceeding 4 per cent in

some countries. Worse, the young able-bodied men are migrating to the cities; so a qualitatively weaker farm labour force is having to support urban growth of 5 to 10 per cent per annum. At the same time the pressure on marginal land contributes to the depletion of stocks of wood, soil erosion and desertification and the danger of irreversible ecological damage.

70. Population growth is, clearly, an absolutely critical element in the story, but this problem is not easy to resolve, as those Governments which have active birth control programmes are painfully aware. Rising child mortality and deepening poverty have the perverse effect of stimulating higher birth rates since it may seem rational for the individual family, if not for society as a whole, to ensure against risk by having more children, some of whom may live. Poverty is not only a consequence of the population growth problem, but its principal source. Indeed, poverty is where we should really start since poverty not only explains dangerously high birth rates, but also the way in which food shortages become famines - those who are too poor to buy food, and have few assets to sell, of necessity go hungry when their crops fail.

71. The growth of food production, at least until the recent drought, does, however, point to some positive and reassuring features in an otherwise depressing picture. One is the clear evidence of the adaptability and ingenuity of the African farmer. Where physical security, economic incentives and efficient government services have been available there has been evidence of an impressive response by small-holder farmers producing both cash crops and food. The second is the favourable population-to-land ratio. Although Africa's soils are recognized to be thin and weak on nutrients, easily damaged by too many cattle and overcropping, given adequate support for agricultural development, there is the promise of considerable improvement in production. Where the ingredients of the "green revolution" - seeds, fertilizers and water - have been brought together in projects in Africa, yields have shown a spectacular improvement.

72. The Committee, therefore, call for renewal of the international commitment to assist the poorest countries, particularly in sub-Saharan Africa, in their efforts to help themselves. Projections of significant declines in net external resources flows to sub-Saharan Africa in the next few years imply continuing deterioration of infrastructure, declining per capita income, and rising human misery. Rehabilitation and development will require expanded co-operative efforts on the part of African Governments and the international community. The Economic Commission for Africa (ECA) prepared a detailed study of the situation, and its cogent proposals for concerted action should be given careful attention. ^{5/} Both the performances of African Governments and that of individual aid donors should be publicly and systematically monitored so as to stimulate maximized efforts on all sides. In discussions of the longer-term global needs for liquidity and development finance the particular needs of the poorest countries must receive far more attention than they have received in the past.

4. The need for effective dialogue

73. Recommendations can only have an impact if there are constructive discussions and negotiations to grapple with the basic problems. In the last report, in dealing with the monetary and financial system, it was recognized that there was a need for a small manageable and representative deliberative process to prepare the way for negotiations and action. Improving negotiating processes and techniques is an important element in making multilateralism work. Progress in that area has now

become even more urgently needed as linkages between negotiations in trade and finance and greater recognition of the need for surveillance and harmonization of the policies of the major countries have opened up possibilities of a dialogue on the financial and trade issues.

74. It could help developing countries to overcome their reluctance to proceed with a new round of trade negotiations at this time, if their interest in deliberations on monetary and financial issues could be recognized and if they could receive assurance that the new round would respond to their interests. The spring meetings of the Interim and Development Committees did not seem able to give expression to widening support for serious discussions on financial and monetary reform. But circumstances would appear to be more propitious now for dialogue. It remains extremely important that any discussions which result from present proposals should lead to an effective deliberative process which, while realistically small, is also realistically representative.

75. Priority issues for any such process, including many we have touched upon in this report, would include:

(a) Macro-economic policy surveillance and co-ordination, crisis management and the exchange rate regime;

(b) International liquidity and the role of IMF;

(c) Development finance and the role of the World Bank;

(d) The trade and investment regime.

5. A time for renewal

76. We began by saying that the challenge multilateralism now faces is in reality a question of the need for international co-operation across a broad front. We have tried to show, both from the history of its evolution in the post-war era and from the major changes that have arisen as a result of the down-turn of the world economy, that all nations are endangered by a drift away from multilateralism. We have drawn attention to some of the specific respects in which greater international co-operation is urgently needed in relation to world trade, to monetary policy, to debt and finance and to the severe crisis now facing countries and peoples in sub-Saharan Africa.

77. Consistently, over recent years, the Committee for Development Planning has called attention to these and other needs for effective international co-operation. ^{6/} At some time or other, almost every international institution or agency and most Governments have called for international co-operation to achieve objectives that should command broad agreement among nations. Yet such agreement now consistently eludes the international community. This lack of agreement on universally agreed action, whether by way of reform or innovation, is often presented and explained in technical terms. We believe, however, that, increasingly, what lies at the heart of such disagreements is a lack of enthusiasm for, or even belief in, the need for global co-operation at all. Nations with strong economies, ignoring the lessons of a not-so-distant history, tend to believe that they can go it alone. What is needed is a process of renewal: renewal of commitment to multilateralism as an essential element.

78. The world economy has been subjected to massive shocks during the last decade. Those shocks have contributed to the weakening of multilateralism, but equally, they also point to the need to strengthen it. The threat to multilateralism, therefore, is not merely a matter of morality. It is one of hard-headed self-interest for all countries and all people. As the United Nations on its fortieth anniversary looks back to the bright hopes that prevailed at the signing of the Charter and the many successes for international co-operation that were part of the realization of those hopes in the early post-war years, both the United Nations itself and the world's nations in whose name it functions need to reaffirm their belief in the essential virtue of multilateralism and to do so not as a matter of form, but of conviction.

79. The essential task of renewal falls on Governments - most of all in terms of restarting a process of dialogue in the critical areas of development and world recovery that will lead to agreement on changes in the interests of all countries. But the United Nations system itself carries a heavy responsibility for making that act of renewal more likely through the strengthening of its own processes and the rekindling of faith in the validity of international co-operation. The Committee believes that the Economic and Social Council can play a major role in this respect. But all elements of the United Nations system can and should help Governments to return to the spirit of the Charter. They can do so by a process of self-examination, by readiness to be intellectually creative, by subordinating institutional partisanship to the wider goals and objectives of the United Nations system and, as important as anything else, by bringing increased efficiency and cost-effectiveness to their operations.

80. The international community must come to terms with the new global economy and the interrelatedness of nations within it; and nations must condition themselves to think more globally - in terms of both longer-term horizons and wider fields of vision. Such perceptions will in any event be unavoidable - forced upon the world by the continued shrinking of our planet and the new national interconnections that it brings. It is better to be prepared for such awareness carefully and dispassionately so as to avoid the shocks, surprises and possible costly policy lurches that could otherwise accompany belated learning processes. All countries must review the meaning of national sovereignty in a world of deepened mutual interdependence. It may be that disorder in the international economy must increase before prevailing attitudes can change; but that is not inevitable, and it is not acceptable. The urgent strengthening of multilateral economic co-operation in response to global needs is a viable option. It is the option that the Committee for Development Planning urges the international community to take.

C. World economic situation and prospects

1. Current situation

81. The beginning of the United States economic recovery at the very end of 1982 came, as the 1984 annual report of the Bank for International Settlement noted, "at just about the eleventh hour". A recovery in a 3.7 trillion dollar economy which represents more than 40 per cent of the combined GDP of OECD and about one fourth of world output, does matter. United States imports alone are larger than the gross domestic product of the seventh largest developed market economy.

82. Last year the United States economy grew by nearly 7 per cent and its imports by 25 per cent in real terms which gave a strong boost to exports and incomes in

several parts of the world. The GDP of other developed market economies increased by 3.3 per cent, after an average of less than 1.5 per cent in 1981-1983. The speed of the recovery was sluggish and highly uneven among developing countries. While in Asia the average rate of growth was near 5.5 per cent in 1984, in Africa, Latin America and the Middle East the average rate of growth was in the 2.2 to 2.4 per cent range, barely matching the rate of increase in population. In 1984, no less than 44 developing countries experienced a stagnating or declining real output per capita, many of them for the fourth consecutive year.

83. In terms of real national income per head, the situation is even worse given the fact that, because of rising payments on foreign debt, the rates of growth of GNP were less than of GDP. In addition, commodity prices in 1984 were still some 15 to 20 per cent below the level of 1980. This is particularly disturbing as no less than 72 developing countries are primary commodity exporters in the sense that more than half of their export earnings are derived from primary commodity exports.

84. World trade revived in 1984, increasing by nearly 9 per cent in volume, which was about the average for the 1960-1973 period. But, while imports of the developed countries increased by over 12 per cent, imports of the developing countries increased by less than 4.0 per cent in volume, reflecting their low growth and the trade surpluses many of them had to generate to keep current on interest payments on their foreign debt. Centrally planned economies, not dependent on the United States recovery, had an average rate of growth of 5.5 per cent in their combined net material product, a figure partly boosted by the performance of the Chinese economy, which had a rate of growth of over 10 per cent in 1984.

85. The intensity of the United States-led recovery is beyond dispute. But there are doubts about its sustainability and the prospects for its international propagation, which relate to two historically unprecedented and unsustainable sets of disequilibria.

86. The first set of disequilibria consists of trade and current account imbalances among developed market economies. The combination of an expansionist fiscal policy and restrictive monetary policy in the United States coupled with deregulation of financial markets has led to higher interest rates and to massive capital inflows into that country, contributing to the financing of the United States growth and leading to an overvaluation of the dollar. There was a swing of \$105 billion in the United States current account position, from a surplus of \$13 billion in 1981 to a deficit of \$92 billion in 1984. Other developed market economies experienced a swing of \$65 billion towards a surplus. These disequilibria have induced uncertainty about exchange rates, about interest rates and even about future economic policy in major countries.

87. The second set of disequilibria is related to shifts in the pattern of trade and current account imbalances between market developed and developing countries. The swings here have also been unprecedented. According to IMF, the current account deficit of 123 indebted developing countries declined from \$113 billion in 1981 to \$38 billion in 1984, largely in order to adjust to the sudden drying up of financial flows and to meet interest payments on their debts. The deficit of the major borrowers in 1981, nearly \$40 billion, was virtually eliminated by 1984. But this balancing of external accounts has been achieved at the expense of internal equilibrium; deep cuts have been necessary in real incomes, stringent import controls have often been resorted to and inflation has been accelerated. Trade surpluses of 4 to 5 per cent of GDP well into the 1990s represent a precarious

course and depend on market access. Since all indebted developing countries must attempt to promote exports, the only way to avoid a futile battle over market shares is to restore sustained growth in world output and trade under a more open multilateral trade system - a system in which developed countries, in particular, would accommodate, not resist, shifting patterns of comparative advantage, refraining from bilateral and discriminatory action.

88. The challenges to multilateral co-operation posed by those two unprecedented and unsustainable sets of related disequilibria cannot be overemphasized. Multilateral action is required in four broad areas.

89. First, monetary policies and fiscal balances in the major market developed economies have such an impact on the world economy that there is a need for macro-economic policy co-ordination to avoid divergent and internationally inconsistent patterns of current account imbalances. This is not a rhetorical plea for co-ordination for the sake of co-ordination. Monetary policies and fiscal balances simply must be harmonized for sustained growth and reduction of unemployment in the world economy. The United States economy will slow down from a growth of 6.8 per cent growth to around half that rate in 1985. The slow-down in the United States economy evidently makes it all the more necessary that other countries explore all possibilities of accelerating non-inflationary growth. This applies in particular to countries which have room for fiscal expansion. The role of enhanced and even-handed multilateral surveillance is crucial in this regard. Major countries ought to be more aware of the international repercussions of their domestic policies, which have to be submitted to systematic discussion in multilateral fora, despite all the well-known political difficulties of transforming discussions into changing policies, as so well exemplified in the field of international trade.

90. Second, there is a need to move towards a more stable international financial intermediation system, broadly seen to encompass not only private international banks but also the international financial institutions and the official aid programmes. In the present system the expansion or contraction of international liquidity is largely determined by decentralized private market operations and is not under the official control of any international body or group of Governments, as exemplified by the sudden and abrupt fall in international bank lending. While Governments do not have control over that process, they do have some measure of control over official bilateral and multilateral lending, the prospects for which are not at all reassuring given the policy attitudes in some major countries.

91. The third area concerns policies for structural adjustment in the borrowing countries, conditionality and the need to improve the present mix between financing and adjustment over the medium term. This discussion leads naturally to the need for an expanding world trade environment, with reduced protectionism, lower interest rates and a growing world economy as a major condition for a lasting solution to the present imbalances. The present massive transfer of resources through trade surpluses is clearly unsustainable in the years ahead.

92. The fourth policy issue arises from the recognition that, although most low-income developing countries, taken in isolation, do not pose a serious threat to the economic stability of the present monetary and financial arrangements, as a group they have become increasingly important trading partners in the world economy. There is a need to recover the momentum for growth and the consensus for development which once existed. This will need improved domestic management as well as a reconsideration of the present attitudes in some major donors towards aid

and particularly of the need for imaginative forms of co-operation between public and private capital flows, which are complementary rather than substitutes for each other.

93. Discussions and policy recommendations in each of those four areas will have to take into account the fact that there has been a major shift in policy attitudes and policy perceptions in major countries, which will affect the world economic situation for years to come.

94. Those shifts have been particularly significant in three crucial areas: (a) there is greater emphasis on the role of domestic policies in adjusting to the changes in the world environment, (b) the role of the private sector is given greater stress both on the national and the international levels, and (c) bilateral and regional action has been gaining on multilateral action.

95. In those three areas, current differences of opinion seem to transcend perceived differences of national interest and to raise the fundamental question of how even agreed common interests are promoted in an international context. The erosion of multilateralism is taking place precisely when multilateral co-operation for development is most needed to face the challenges ahead.

2. Medium-term outlook

96. Projections for the second half of the 1980s indicate rates of output growth of developed market economies of around or slightly above 3 per cent. The volume of world trade is expected to grow in the range of 4.5 to 5.5 per cent a year in real terms. Exports of developing countries are expected to grow in real terms at nearly twice the rate of developed countries' real output. Estimates of developing countries GDP growth range from 3.5 to 4.5 per cent a year. These growth rates, premised on "better policies" scenarios in both developed and developing countries, will not fully restore by 1990 the levels of national real income per head the majority of developing countries enjoyed in 1980. 7/

97. These projections have to be seen against the backdrop of serious external sector imbalances, particularly in the indebted developing countries. Their combined current account deficit is expected to reach almost \$40 billion in both 1985 and 1986. Their net payments of interest and dividends or direct investment are expected to exceed \$US 70 billion in each year. The implication is that those countries are expected to generate surpluses in trade and non-factor services of over \$30 billion in those two years. That has to be obtained through a combination of expanding exports and, in many cases, curbing imports and increasing trade restrictions. Those are undesirable consequences of having trade at the service of finance. But they are inevitable only in the sense that prospective current account deficits which cannot be financed cannot materialize. It is the financial restrictions, therefore, which are binding, which put at the centre of the discussion the question of the resource flows for development.

3. Resource flows for development

98. In 1983, the last year for which complete information is available, financial flows to developing countries from all sources reached \$110.3 billion, down from \$138.4 billion in 1981. Concessional flows represented \$35.9 billion, down from \$39.3 billion in 1981, and non-concessional flows \$74.4 billion, down from \$99.1 in

1981. The breakdown of those figures is presented in table 1 below. It should be emphasize that the flows in 1983 included no net flow for China, only a negligible amount for India and were far below what was required for Africa.

99. While ODA declined by \$3.4 billion, the decline in commercial bank lending, foreign direct investment and export credits has been even more impressive. Bank lending declined from \$52.5 billion to \$34 billion in 1983 (including involuntary lending associated with the reschedulings of IMF-major banks). Preliminary estimates show that new commercial bank lending to developing countries declined further to \$14 billion in 1984, a figure consistent with earlier reports of the Bank for International Settlements indicating that new bank lending to developing countries in the first three quarters of 1984 had reached only \$10 billion.

100. Foreign direct investment declined from \$17.2 billion in 1981 to \$7.8 billion in 1983. On average, in the 1981-1983 period, foreign direct investment represented 10 per cent of total flows to developing countries. Preliminary estimates show that, in 1984, it represented less than 9 per cent of a reduced total.

101. Net export credits declined from \$13 billion in 1981 to \$7.6 in 1983. On average, in the 1981-1983 period, they represented 8.3 per cent of total financial flows to developing countries. For low-income countries, export credits represent the major source of commercial or quasi-commercial finance.

102. The prospects for each of these three main components of non-concessional flows are either highly uncertain or not at all reassuring. Commercial bank lending is expected to grow in the remainder of the decade but the range of estimates is unusually wide. International secretariats indicate a most likely growth range of 6 to 7 per cent, but recognize that, under "worse policies" scenarios, bank lending might increase by only slightly more than 3 per cent. Under a "better policies" scenario, bank lending could increase by as much as 10 per cent. The international banking community, however, has repeatedly stressed that concern over capital adequacy and risk concentration will limit the ability of banks to extend substantial new loans to developing countries for some years to come, emphasizing the need for those countries to find ways to tap other sources of funds.

103. Private direct foreign investment increased at an average annual rate of 10.6 per cent a year in dollar terms between 1960 and 1981, but has fallen substantially since then. International secretariats expect at least the restoration of the "historical" rates for the remainder of the decade of 11 per cent per year with an increase to 12.5 per cent under some sort of "better policies" scenario. Applied to 1983 figures, those rates of growth indicate the expectation of foreign direct investment flows in the range of \$17.5 to \$19.5 billion in 1990, slightly more than double the present flows.

104. Export credits are even harder to project. As noted by international secretariats the risk of discontinuities are high given the commercial and political priorities of governments and the fact that promoting development is not a defined objective of export credits, the primary purpose of which is to serve as promotion of exports from the lender countries.

105. In the light of the uncertainties surrounding the supply of these three main sources of non-concessional flows, the slow-down and virtual stagnation of ODA flows, the major form of external assistance to the low-income countries, is most

Table 1.

Financial flows to developing countries from all sources by type of flow, 1975-1983
(billions of dollars and percentage)

Type of flow	1975-1977		1980		1981		1982		1983		1981-1983	
	Average	Per cent	Billions of dollars		Billions of dollars		Billions of dollars		Billions of dollars		Average	Per cent
	(\$ billion)										(\$ billion)	
I. Concessional												
A. Official development assistance	22.1	28.4	39.8	39.3	37.1	35.9	37.4	30.5				
1. Bilateral	20.7	26.6	37.5	37.3	34.7	33.7	35.2	28.7				
2. Multilateral	16.6	21.3	29.7	29.4	27.2	26.1	27.6	22.5				
B. Grants by private voluntary agencies	4.2	5.4	7.8	7.9	7.5	7.5	7.7	6.2				
Non-concessional	1.4	1.8	2.3	2.0	2.3	2.2	2.2	1.8				
II. Non-concessional	55.8	71.6	86.4	99.1	81.8	74.4	85.0	69.4				
A. Official	15.9	20.4	27.0	28.2	28.4	32.1	29.5	24.1				
1. Bilateral	10.4	13.4	19.6	16.4	15.4	12.6	14.8	12.1				
a. Export credits	8.0	10.3	10.3	13.3	9.8	7.6	10.2	8.3				
b. Other bilateral	2.4	3.1	6.0	3.1	5.6	5.0	4.6	3.8				
2. Multilateral	2.6	3.3	4.9	5.7	6.6	7.0	6.4	5.2				
3. Net IMF purchases	2.9	3.7	2.5	6.1	6.4	12.5	8.3	6.8				
B. Private 59.9	51.2	59.4	70.8	53.4	40.3	55.5	45.3					
1. Direct investment	9.8	12.6	10.5	17.2	11.9	7.8	12.3	10.0				
2. Long-term bank lending	13.5	17.3	23.0	30.0	26.0	36.0	30.7	25.1				
3. Short-term bank lending	15.0 a/	19.3	24.5	22.5	15.0	-2.0	11.8	9.6				
4. Bond lending	1.6	2.0	1.4	1.1	0.5	0.5	0.7	0.6				
Total	77.9	100.0	126.2	138.4	118.8	110.3	122.4	100.0				

Source: Organisation for Economic Co-operation and Development, Development Co-operation, 1984 Review (Paris, 1984), table IV-1.

a/ Estimate.

disturbing. Bilateral ODA declined from \$29.4 billion in 1981 to \$26.1 billion in 1983. Multilateral concessional flows were \$7.5 billion in 1983. Its prospects are also uncertain for the years ahead. Both are highly dependent on budgetary and appropriations processes in donor countries.

106. International secretariats project that current account deficits of developing countries will double from 1985 to 1990. However virtually all of this increase is ascribed to Asia. In other regions of the developing world current account deficits are expected to remain more or less unchanged except in the Latin American region and the Caribbean, where the current account deficit is expected to be nearly zero in 1990, implying a continuation of large trade surpluses.

107. Such projections imply heroic assumptions about trade, protectionism, debt-servicing, private banks' behaviour, international interest rates, and policies in major countries. They also imply the expectations that the mix between adjustment and financing will be tilted in the direction of more adjustment and less financing for the remainder of the decade.

108. The Committee does not agree with this assessment, which implies that indebted countries will be able to export their way out of debt in the second half of the 1980s in spite of severe financial restraint. Such an expansionary solution is only possible if there is a significant increase of international resource flows for development, given the limitations of foreign direct investment and the change in commercial banks' perceptions. The case for more finance for development is thus a case for more official multilateral lending which calls for a renewed consensus for growth and stability in the industrial countries and economic and social development in poorer countries.

109. As appears from this overview of the sources of financial flows to developing countries, there is a strong likelihood that those flows will in the future be lower in real terms than in the past and will grow more slowly. If these prospects come true, it will mark the end of a chapter in international development, in which reliance on external finance has been very heavy. It is fashionable today to suggest that the capital flowing to developing countries, whether in the form of aid or loans, was largely dissipated and wasted. As many careful audits and evaluations have shown, however, that is simply not correct. Development assistance in its various forms has a commendable record and, until the debt crises of the 1980s, foreign finance contributed to a high level of investment and growth. Lower levels of financial assistance in the future will lead, almost entirely, to lower rates of growth and economic advance.

110. In the past, aid flow, and other kinds of public and private capital flows have also been tangible expressions of the complex web of interests - economic, political and humanitarian - that link developed and developing countries together. A long-term contraction of such flows, in the face of vast and well documented investment needs, especially for infrastructure which does not lend itself to direct private investment, would be confirmation that development co-operation now receives low priority.

111. This will have fundamental consequences for development strategy. Unless real progress is made in dismantling protectionism, the temptation to return to more inward-looking policies in developing countries will be strong. The potential for trade among developing countries has been substantially enlarged by the rapid industrialization of many of them, and South-South trade may come to play a greater role than it has in the past, complementing though not replacing North-South trade.

III. IDENTIFICATION OF THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES

112. The Economic and Social Council, in resolution 1984/58 of 26 July 1984, and the General Assembly, in resolution 39/198 of 17 December 1984, requested the Committee for Development Planning to consider the eligibility of Kiribati, Tuvalu, and Vanuatu, respectively, for inclusion in the list of the least developed countries.

113. The Secretariat provided the Committee with the data needed to update the per capita gross domestic product (GDP) criterion. Given changes in prices and real growth of per capita GDP in world market economies from the three-year average of 1970-1972 to the 1980-1982 period, the new adjusted lower and upper cut-off points were found to be \$US 355 and \$US 427, respectively.

114. The Secretariat also supplied the Committee with the most recent available data on per capita GDP, the share of manufacturing in GDP and the adult literacy rates for the countries in question. This information had been collected from various organizations of the United Nations system and the Governments of the countries concerned.

115. After careful consideration, the Committee reached the conclusion that Vanuatu qualified for inclusion in the list of the least developed countries on the basis of the existing criteria and in the light of the available data. The Committee decided to withhold its decision with regard to the other two countries until a new set of criteria is established.

116. The Committee is skeptical of the existing criteria for the determination of eligibility of countries for inclusion in the list of least developed countries. Furthermore, it is the considered opinion of the Committee that, if it is to be meaningful, the establishment of a new set of criteria must involve a clear definition of the purposes that the list of the least developed countries is meant to serve.

IV. ARRANGEMENTS FOR FUTURE WORK

117. The Committee last year, adopted on an experimental basis, a two-session work programme, supported by three working groups. That programme was carried out successfully within existing budgetary appropriations. However, aware of the reservations expressed by some Member States and concerned that attention should not be diverted from the substance of its reports, the Committee proposes to revert back to a single-session work programme. In doing so, the Committee appeals to the Secretary-General for increased Secretariat support for more rigorous preparatory work to enable the Committee to perform adequately its responsibility and to ensure a distinctive annual report, which will command world attention and hopefully contribute to the creation of a climate of opinion which may realize improvement in international development policy.

118. The Committee proposes to meet once in plenary session for a period of not more than five days. It further proposes to convene a representative working group of eight members, including the Rapporteur, for three days in the last quarter of 1985 in New York to prepare a draft outline of the Committee's report. The working group will be devoted to a general review of the state of world development and identification of specific themes to be covered in the report. The Rapporteur would undertake the preparation of a draft report based on the guidelines provided by the Working Group. The draft report would then be submitted to Committee members well in advance of the plenary session, which would be scheduled in the first quarter of 1986. That session would permit a full-fledged discussion of the report and would incorporate any new elements of the current situation which might have emerged during the intervening period.

119. The Committee has been informed by the Secretariat that the above arrangements do not entail additional budgetary appropriations.

120. As to the future work programme, the Committee has agreed to continue its work as envisaged in the May 1984 session. For its 1985 session, the Committee decided to focus its attention on the world economic situation and prospects, with particular emphasis on the capital needs of developing countries and the structure and trend of capital flows to them.

121. The Committee is deeply concerned with the current inadequate level of resource flows to the developing countries. In many cases, those flows have become negative and may well remain so in the coming years. Yet a minimum level of external finance is indispensable to achieve rising per capita income growth and development. Reorientation of domestic policies and mobilization of internal savings are important, but will not substitute for external sources of finance.

122. The Committee believes that research on the capital needs of the developing countries and the sources and trends of capital flows to them in the 1980s and 1990s is a priority item and urges the Secretariat to complete the study which the Committee requested at its May 1984 session on the structure and trend of financial flows to developing countries and how these might be improved and expanded to facilitate development. Specifically, the study should focus on the conditions and determinants of capital supply and alternative scenarios for projected capital demand and supply spelling out the trade-off between capital and growth. The study should examine and assess alternative projections of capital requirements of various international institutions, bearing in mind the conceptual issues involved in such exercises. The scope for policy intervention should be addressed as well,

with special attention paid to the possibilities of developing new instruments. Finally, the study should identify the main issues to which the Committee might direct its attention.

123. Following past practice, the Committee requests the Secretariat to make arrangements for the presentation of the report to the Economic and Social Council by the Chairman, and for a two-day meeting of the Bureau of the Committee and other members proposed by the Chairman to consider the implementation of the work programme. In order to minimize costs, the meeting should be scheduled for the first half of July at Geneva on the occasion of the presentation by the Chairman to the Council of the Committee's report.

V. ORGANIZATION OF THE SESSION

124. The twenty-first session of the Committee for Development Planning was held in two parts. The first part was held at Geneva from 19 to 21 November 1984. Seventeen members of the Committee attended that session: Ismail-Sabri ABDALLA, Abdlatif Y. AL-HAMAD, G. D. ARSENIS, Kenneth BERRILL, Bernard CHIDZERO, Armin GUTOWSKI, Gerald K. HELLEINER, Shinichi ICHIMURA, V. N. KIRICHENKO, Robert S. McNAMARA, G. O. NWANKWO, Goran OHLIN, Jozef PAJESTKA, Shridath S. RAMPHAL, Luis A. ROJO, Rehman SOBHAN, and Janez STANOVNIK.

125. The Committee was assisted in its deliberations by the following invited experts: Albert BRESSAND, Reinaldo FIGUEREDO, Vijay JOSHI, Carlos MASSAD and Stanley PLEASE.

126. The Committee's deliberations were facilitated by the reports of its two Working Groups, one on interdependence and multilateralism and the other on domestic economic policies and surveillance. Both Working Groups met at Geneva, the former from 12 to 14 October 1984 and the latter on 16 and 17 November 1984. Committee members G. D. ARSENIS (Chairman), G. K. HELLEINER (Rapporteur), G. OHLIN and J. STANOVNIK attended the meeting of the first working group. Two invited experts, K. DADZIE and D. KEBSCHULL, also attended the meeting. The meeting of the second Working Group was attended by Committee members A. AL-HAMAD (Chairman), G. K. HELLEINER (Rapporteur), J. PAJESTKA, L. A. ROJO, R. SOBHAN, and J. STANOVNIK, and one invited expert, R. FIGUEREDO.

127. The Committee held its resumed twenty-first session at United Nations Headquarters from 20 to 23 April 1985. Seventeen members of the Committee attended the session: Ismail-Sabri ABDALLA, G. D. ARSENIS, Jean Pierre COT, Shinichi ICHIMURA, V. N. KIRICHENKO, Robert S. McNAMARA, Kenneth BERRILL, Joseph Elenga NGAMPORO, G. O. NWANKWO, Jozef PAJESTKA, I. G. PATEL, Shridath S. RAMPHAL, Luis A. ROJO, Mohammad SADLI, Rehman SOBHAN, Janez STANOVNIC and Huan XIANG. Five members were unable to attend: Abdlatif Y. AL-HAMAD, Bernard CHIDZERO, Hernando DE SOTO, Celso FURTADO and Armin GUTOWSKI. 8/ G. K. HELLEINER resigned from the Committee and Goran OHLIN relinquished his membership on joining the United Nations Secretariat on 1 January 1985.

128. The following invited experts assisted the Committee in its deliberations: Rodrigo BOTERO, Ariel BUIRA, Sidney DELL, Phillipe DE SEYNES, Just FAALAND, Gerald K. HELLEINER, Hans Eckart SCHARER and Arjun SENGUPTA.

129. Prior to opening the session for discussion, the Chairman of the Committee made a statement (see annex II below).

130. The Committee's deliberations were facilitated by the report of its Working Group on Interdependence and Multilateralism, which had been revised along the lines suggested by members at the November 1984 session of the Committee by means of informal consultations conducted by Mr. G. D. Arsenis, the Chairman of the Working Group.

Notes

1/ General Agreement on Tariffs and Trade, Trade Policies for a Better Future: Proposals for Action (Sales No. GATT/1985-1). Circulated to members of the Committee under the symbol CDP/21R/BP.7.

2/ Official Records of the Economic and Social Council, 1984, Supplement No. 7 (E/1984/17), para. 61.

3/ Ibid., chap. I, sect. F-2.

4/ For the text of the statement issued by the Committee at the conclusion of its session in November 1984, see annex I below.

5/ The conclusions and recommendations contained therein are reproduced in annex III below.

6/ See "Views and recommendations of the Committee for Development Planning" in World Economic Recovery (United Nations publication, Sales No. E.82.II.C.3), Overcoming Economic Disorder (Sales No. E.83.II.C.2) and Crisis or Reform (Sales No. E.84.II.C).

7/ The concept of "better" and "worse" policies refer, principally to structural fiscal and industrial policies in both developed and developing countries and to removal of rigidities in labour and capital markets. See, for example, International Monetary Fund, "Chapter I and selected tables", World Economic Outlook (17 April 1985).

8/ Substantive services for the Working Groups of the Committee and its plenary sessions were provided by the Department of International Economic and Social Affairs of the United Nations Secretariat. Two professional consultants, Catherine Gwin and John Ruggie, also contributed to the work of the Committee. The Committee was further assisted by representatives of the Office of the Director-General for Development and International Economic Co-operation, the United Nations Centre on Transnational Corporations, the United Nations Centre for Science and Technology for Development, the Economic Commission for Europe, the Economic Commission for Asia and the Pacific, the Economic Commission for Latin America, the Economic Commission for Africa, the World Food Council, the United Nations Conference on Trade and Development, the United Nations Industrial Development Organization, the United Nations Children's Fund, the United Nations Development Programme, the United Nations Institute for Training and Research, the United Nations Research Institute for Social Development, the International Labour Organisation, the Food and Agriculture Organization of the United Nations, the United Nations Educational, Scientific and Cultural Organization, the World Health Organization, the World Bank, the International Monetary Fund, the International Fund for Agricultural Development, the International Atomic Energy Agency, the Organisation for Economic Co-operation and Development and the Commonwealth Secretariat.

Annex I

PROPOSALS FOR ACTION ON SUB-SAHARAN AFRICA a/

1. Famine in Africa is arousing the conscience of the world. In most of Africa today the economic situation is literally a matter of life and death. In 1984-1985, food assistance of over 5 million tons of grain will be required to avert severe malnutrition and starvation for 27 countries, almost all of which have been severely affected by drought. Already, tens of thousands are dying in the most severely affected countries, especially in Chad, Ethiopia and Mozambique.

2. Emergency food and associated supplies, essential as they now are, can have little impact upon the deeper sources of the current crisis in Africa. Effective African and international action 10 years ago could have averted today's disasters. Unless the roots of Africa's problems are more effectively addressed today, a succession of similar calamities is certain over the coming decades. It is absolutely critical that more vigorous efforts begin now towards the saving of Africa's future.

Structural causes

3. African countries have been devastated by a combination of domestic policy shortcomings, extremely rapid population growth, civil strife, external destabilization and, most recently, savage blows from the world economy and natural disasters. Africa's uniquely fragile economies, struck by severe shocks - relatively much more severe than those suffered by others - have been less able either to develop appropriate policy response or to draw on flexible sources of external supportive credit. Massive retrenchment, the breakdown of institutions, suffering and, now, starvation, were the inevitable outcome.

4. The shocking circumstances of today's Africa can and must be overcome. There is a growing professional consensus as to what needs to be done and the relatively small external support - less than one tenth of a per cent of the gross national product of Organisation for Economic Co-operation and Development (OECD) countries - required for the purpose. The World Bank, the Economic Commission for Africa, the African Development Bank and the overwhelming majority of African Governments agree on how sustained development can begin to be built again over the next three to five years. There is technical agreement that domestic policy reform and improved external support make up an inseparable package. Increased support for agriculture, through restructured institutions and incentives, is the crux of the required domestic policy change. Restored levels and more appropriate and flexible forms of official assistance constitute the essential external requirements. Domestic or external policies also are each unlikely to avert the recurrence of future disasters. There is, therefore, a joint responsibility for securing a better future in Africa.

Urgent requirements

5. To invest in necessary restructuring while preserving even reduced current levels of living requires considerable time and foreign exchange. Insufficient foreign exchange is being made available and the prospect is for even lower levels in the future. African economies have been badly debilitated by the deferral of necessary maintenance activities. Their productive units are working far below capacity for lack of imported inputs for farms, factories and transport.

Assistance for those rehabilitative and operational purposes, rather than for large new projects is, after food, Africa's most urgent current requirement. Without it, African productive potential will further deteriorate and its downward spiral will continue. In present African circumstances, the returns from the provision of even modestly increased amounts of foreign exchange for rehabilitative and operational use will be extraordinarily high.

6. Many African Governments have begun to implement major structural reforms. Others would be ready to begin if they were assured the necessary extra resources and technical support. The Committee urges the Governments of the industrialized countries to commit themselves now to their share of the responsibility for assuring at least a minimally tolerable future for Africa over the next decade. The failure of external support to materialize will seriously prejudice the prospects of success for existing efforts at domestic policy reform and discourage others. It also risks long-term erosion of the credibility of multilateral institutions' advice within Africa.

7. Assistance for Africa and formulation of its economic policies must take a longer view than that which typically characterizes discussion of its current drought and famine. Public support for African emergency relief can and must be transformed, through governmental leadership, into support for efforts to avert such disasters in the future. The Committee urges Governments not only to respond as we have suggested to the widespread professional consensus as to the needs, but also to join in a major effort to explain those development issues to a wider public. Such measures would, in the view of the Committee, constitute an effective, if overdue, response to the Secretary-General's call earlier in 1984 for "concerted and co-ordinated action" to deal with the critical economic situation in Africa.

Action recommendations

8. The Committee recommends that the international community should agree at the earliest possible time, and certainly no later than at the special session of the Development Committee in April 1985, on a special joint financing plan for Africa along the lines recommended recently by the World Bank. That must involve total new net commitments, above those already in place, of at least \$US 6 billion per year over the next three years. This much is required merely to maintain net flows at the levels of recent years. Of this, at least \$US 2 billion should be channelled into a Special Financing Facility to be administered by the World Bank/International Development Association (IDA) for use in low-income countries of Africa. That would constitute a minimum indispensable starting point for the longer-run programme that Africa requires.

9. The Committee recommends effective surveillance both for bilateral aid performance and for evaluation of Government economic policies in Africa. Surveillance of donor government performance is no less important than that which parts of the international community now propose, and to some degree already exercise, with respect to African Governments.

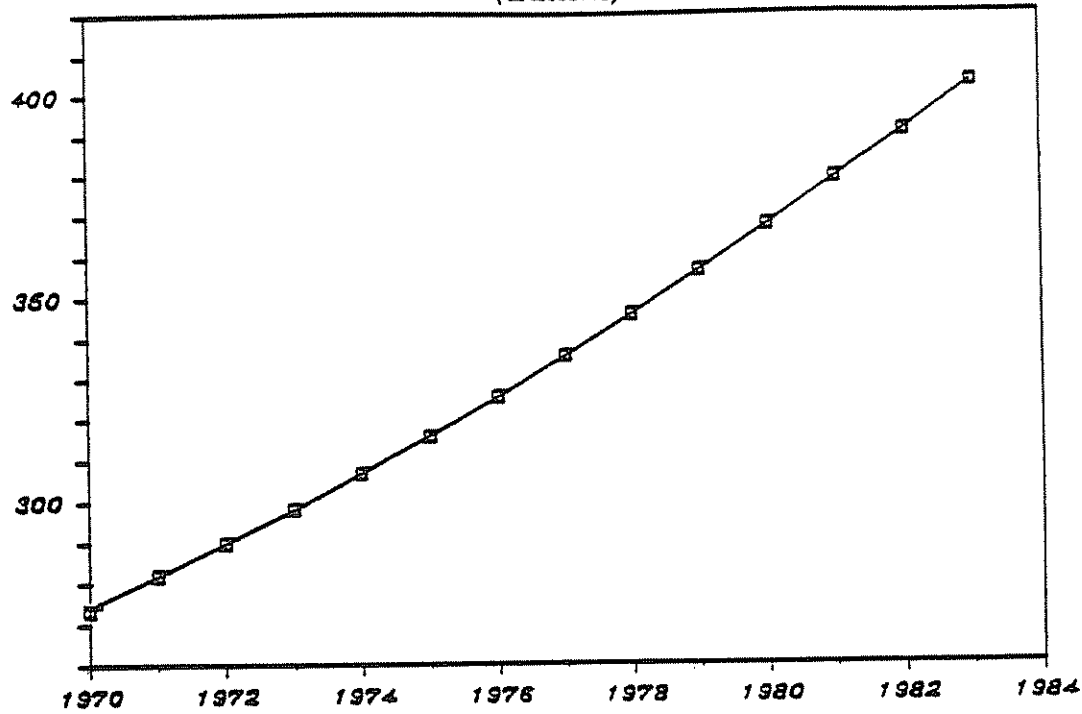
10. Since, relative to the obviously increasing needs, African access to international liquidity and bridging finance has fallen in recent years, the Committee also recommends an urgent review of the adequacy and conditions of International Monetary Fund (IMF), World Bank and other sources of finance for the future stabilization of the economies of low-income countries of Africa.

Notes

a/ Statement issued by the Committee for Development Planning at the conclusion of the first part of its twenty-first session, at Geneva, 21 November 1984.

POPULATION

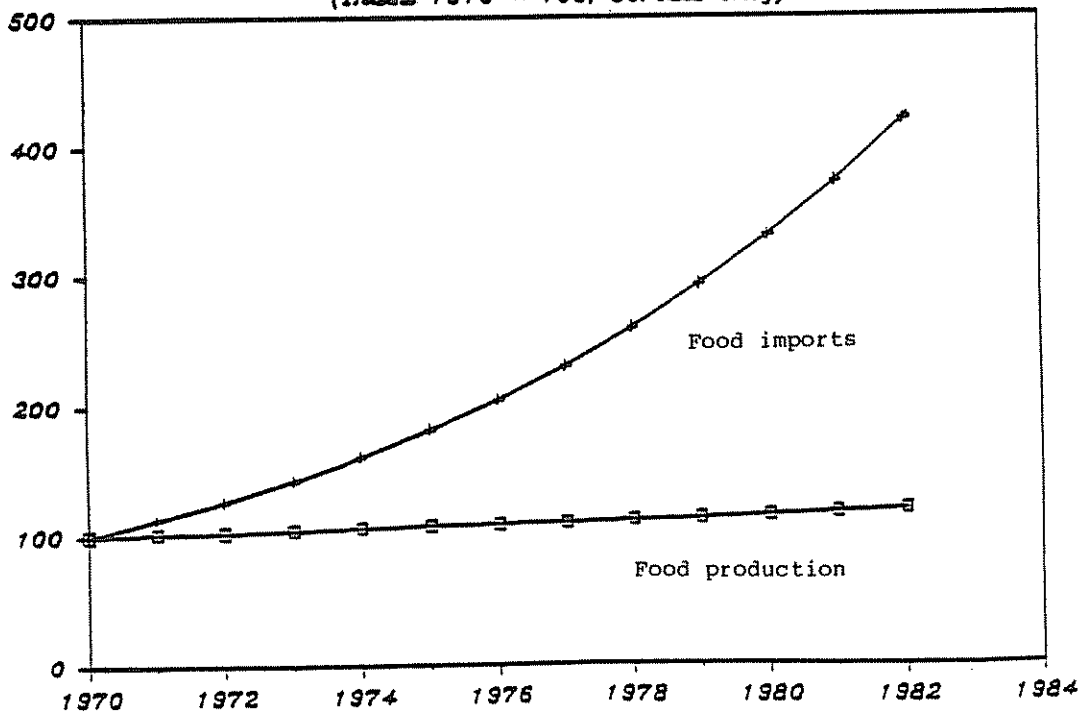
(Millions)



Data: United Nations.

FOOD

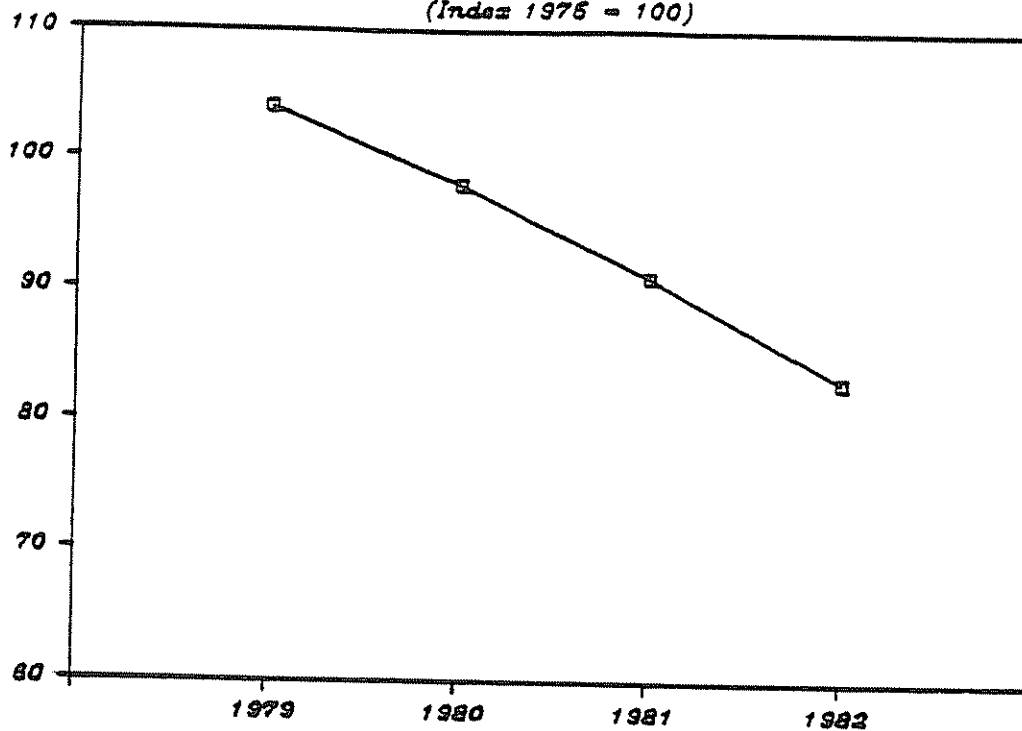
(Index 1970 = 100, Cereals only)



Data: World Bank.

TERMS OF TRADE *

(Index 1976 = 100)

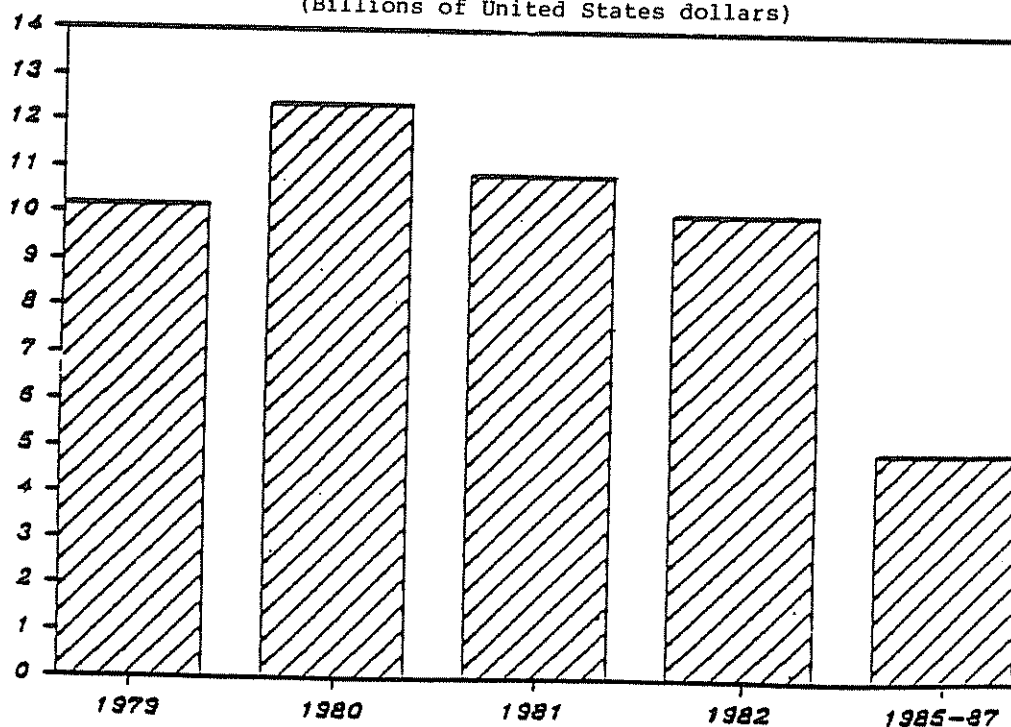


* Excludes oil-exporting countries

Data: United Nations.

NET CAPITAL FLOWS

(Billions of United States dollars)



Data: World Bank.

Projected annual average

Annex II

STATEMENT BY THE CHAIRMAN OF THE COMMITTEE AT THE OPENING OF ITS RESUMED TWENTY-FIRST SESSION a/

1. When we met last at Geneva, five months ago, the vigour of the United States and Japanese recovery held out some hope to the world of more widespread and sustainable growth. The more cautious views expressed at our Meeting then and at our twentieth session a year ago, and the continuing dangers we highlighted on those occasions have, however, proved more durable. Thus, even before Western Europe and most developing countries have begun to show buoyancy, the downturn in the United States has led to projections of lower growth in the world economy in 1985 and 1986 than the modest levels achieved in 1984.

2. Behind this overall outlook are developments which are not reassuring. Investment continues to be restrained by interest rates, which remain extremely high in real terms. And the main cause of those high rates - the large United States budget deficit - offers no promise of early significant reduction.

3. In the meantime, the high interest rate attracts into the United States capital from developed and developing countries which is greatly needed to stimulate those countries' own recovery. World trade grew at the buoyant rate of 9 per cent in volume terms last year. But a significant slow-down is expected this year. Any hope that trade can serve in a substantial way as an engine of growth is invalidated by the rise in protection which is taking place even at this time of recovery; and the possibilities of escalating beggar-they-neighbour trade policies, which could be triggered by persistently misaligned currencies, are never far in the background.

4. In the industrial countries unemployment remains stubbornly high and even in the United States it remains much above the levels seen in better times in the past.

5. In the developing world, special factors prevent many countries from sharing in economic improvement to the extent that should be expected from historical experience. Commodity prices, which normally respond quickly to increased demand, remain depressed; in dollar terms the prices of industrial raw materials fell by 19 per cent in the year to March 1985. The highly indebted countries, both middle-income and low-income, find much of their improved export earnings dissipated in increased interest payments on foreign debt. Thus, non-oil developing countries paid 3.5 billion more in foreign interest payments in 1984 on the already large burden of \$68 billion in 1983. To meet those burdensome debt service payments, the 20 largest indebted developing countries had to produce a trade surplus of \$30 billion last year. Thus, for many of those countries, despite a substantial increase in export earnings, the ratio of interest payments to export earnings remained unchanged. For some of them, the historically anomalous situation was realized in 1984 as in 1983, where they were saddled with a negative resource transfer, a counterpart of the large net capital inflows into the world's largest economy and one of its most affluent.

6. But, although quantitatively very revealing, data on debt levels and debt service ratios do not capture fully the human suffering and political strains that they imply. Instead they are interpreted much in terms of adjustment success and progress rather than in terms of burdens imposed and the fortitude demanded from

the highly indebted countries in meeting commercial obligations - obligations which, though legally contractual, are fulfilled in international circumstances so inequitable as seriously to qualify them.

7. In today's circumstances of weak and unresponsive multilateral co-operation and international economic management, a subject which will be our major concern at this meeting, debt-rescheduling responds more to the wishes of the creditor than to the needs of the debtor. Thus, multi-year rescheduling and other improvements in handling difficult debt problems, which have been adopted in recent times, have been confined almost wholly to large middle-income countries. But, even for those countries, serious problems remain, since the prolonged nature of the economic burdens and political strains involved mean continuing high risks that things could go wrong.

8. At the time of our last meeting, the situation was grave in large parts of sub-Saharan Africa. We endeavoured to draw attention to the immediate relief required, as well as to the longer-term needs. Since that time, there has been some improvement in the weather in some parts of Africa, as well as in the international response. The response, especially in terms of emergency needs, has been encouraging and the role the United Nations played in this regard serves as a reminder of the great value and tremendous potential of multilateral co-operation.

9. But emergency problems are far from being resolved and the longer-term problems remain without the major international effort required. The World Bank has been able to achieve its target of \$1 billion for its Special Facility for sub-Saharan Africa. But the target itself, influenced by the unpropitious aid environment, was set at a very modest level in relation to needs and not all the funds are additional or represent multilateral provision.

10. African Governments are themselves making a tremendous effort. They recognize that, while adverse international circumstances and drought have contributed greatly to their problems, there are serious longer-term problems of economic management, deforestation, desertification and population control with which they must grapple. Those efforts need assistance and support from the international community especially because of the scale of the problems and their urgency. It must be a continuing task of this Committee to contribute to the major adjustment and restructuring task which must be accomplished.

11. I have touched on the evolving world situation not only because it is our continuing task to monitor developments, but the problems highlighted also have an important bearing on the topic on which we have chosen to focus this year - multilateral co-operation. It seems to me that many of the major problems facing the world today, including many of the constraints to recovery, have either a strong international dimension or roots in our inadequate and ill-adapted multilateral co-operation. High interest rates, protectionism, negative resource flows to developing countries, an unbalanced adjustment process, deforestation and desertification are all examples.

12. Poor adaptation to changes in the world economy are an important part of the problem of multilateral co-operation. But we must be careful not to neglect other aspects of the problem. Political will, perceptions of the value of multilateral co-operation, power relations and faded support for institutions and rules that have proved their worth are all significant factors. In dealing with this subject, which has tremendous relevance not only in terms of the problems we face today but also as a contribution to the reviews and assessments which will form part of the

fortieth anniversary of the United Nations, while it is necessary to be as positive and constructive as possible, coming to grips with the real causes of the problems is the only way we can make a durable contribution.

13. But, however enlightened and persuasive are our recommendations on multilateral co-operation, not much will be achieved unless negotiating processes, especially on issues of interest to both North and South, are made more effective. In our last report, in dealing with the monetary and financial system we recognized a pressing need for a small, manageable and representative deliberative process to prepare the way for negotiation and action. That recommendation remains relevant and has become even more so politically. Linkages are being made between trade and finance and greater recognition of the need for surveillance and harmonization of the policies of the major countries have opened up new possibilities for a serious dialogue on the financial issues.

14. It could help developing countries to overcome their reluctance to proceed with a new round of trade negotiations at this time, if their interest in deliberations on monetary and financial issues could be satisfied and if they could receive assurance that the new round would give substantial attention to their interests.

15. The spring meetings of the Interim and Development Committees did not seem able to give expression to the widening support for serious discussions on financial and monetary reform. But evolving circumstances are making more urgent and propitious the need for dialogue. It remains extremely important that any proposals which result from present discussions should lead to a deliberative process which is realistically small and realistically representative.

Notes

a/ Statement by the Chairman of the Committee, Mr. Shridath S. Ramphal, at the opening of the resumed twenty-first session on 20 April 1985 in New York.

Annex III

CONCLUSIONS AND RECOMMENDATIONS OF THE SECRETARIAT OF THE ECONOMIC COMMISSION FOR AFRICA a/

1. The African region, not fully recovered from a series of oil crises, was seriously affected by the most devastating natural disaster on record, affecting at one time almost all countries with few exceptions. The structural deficiencies are considered the main cause of the intensity of the crises. As a result, the production structure of many African economies fell into disarray. Agriculture, the impetus of growth, can no longer sustain the basic necessities of the African population, given the damage to the soil caused by drought and other natural calamities. Moreover, the hostile international environment and inadequate and inappropriate domestic policies have, no doubt, been responsible for the very poor economic performance of the African region. Since the beginning of the 1980s there has been no significant growth in output.

2. At the close of the 1970s, when the African population was expanding on the average of about 2.5 per cent, food production was only expanding by less than 2 per cent per annum. The situation has been much worse in the 1980s; per capita food production declined so sharply that each African is estimated to have around 10 to 12 per cent less home-grown food than five years earlier. b/ Thus, the region has had to import food or receive food aid in increasing amounts. It is believed that over 20 per cent of the African population currently depends on food imports. Even so, the African region still remains calorie deficient. The calorie intake of over a quarter of the present population is below the critical minimum limit. In spite of the concerted efforts of FAO, WFP and WFC, reinforced by the repeated appeals of the Secretary-General of the United Nations for assistance in favour of the most seriously affected countries, aid has not yet arrived on anything like the scale necessary to defuse permanently the African food crisis. The situation in 1985 is still precarious. About 40 per cent of the known pledges for food aid have not been received. Furthermore, there are frequent serious delays in delivery of food aid owing to the lack of adequate logistic support to effect distribution within the countries affected.

3. The emergency and rehabilitation needs in 1985 for the 21 critically affected countries (13 of which are among the least developed countries) with expected poor harvests are estimated at \$2 billion (provisional). The identified needs for international support include the food-aid gap as of 15 January (\$435.8 million), emergency water supplies (\$30.7 million), c/ transport of food aid (\$769.2 million), resettlement of displaced populations (\$101.2 million), supplementary feeding (\$292.2 million), essential health services (\$191.6 million) d/ and urgent rehabilitation of food-growing land and livestock (\$164.2 million). e/

4. The needs of the various survival programmes of rehabilitation should be addressed with urgency. There should be no doubt that efforts to resuscitate the African economy as a whole will critically depend on the immediate success of the rehabilitation and revitalization of the African agricultural sector. Specific emphasis should, therefore, be given to incentive measures to increase immediately food and agricultural production and productivity as well as to the development of water resource infrastructures. Of crucial importance, other secondary and tertiary sectors (industry, transport, financial and administrative services) should be simultaneously revamped in a fully defined framework of rehabilitation

package that supports the agricultural sector. It has to be understood therefore that only through building of the necessary capabilities and enhancing the absorptive capacity of the African economies can there be any hope for the successful implementation of long-term programmes and structural reforms that would ensure a rapid and sustainable growth.

5. To ensure the success of the programme to revitalize African economies, international support will have to extend its scope beyond the provision of emergency assistance. Continuing assistance should be initiated immediately by means of a package of measures that would:

- (a) Combat drought and related problems;
- (b) Stabilize the food-supply situation;
- (c) Rationalize the production of basic industries by regular supplies of spare parts and basic industrial inputs, especially food, textiles and health care industries;
- (d) Strengthen transport services by provision of repair and maintenance facilities for trucks and roads;
- (e) Increase balance-of-payments support;
- (f) Rationalize the promotion of price stabilization at remunerative levels, commodity agreements and compensation for short-falls in export earnings;
- (g) Remove all trade barriers vis-à-vis African countries;
- (h) Grant moratoria for at least three to five years on the servicing of both public and private debt;
- (i) Write off accumulated arrears resulting from recent increases in the rate of interest or convert them into grants;
- (j) Cover all or a large part of counterpart local and recurrent costs of projects;
- (k) Provide more non-project assistance in support of the adjustment process.

6. It has to be fully emphasized from the start that the root causes of the African problematique are structural. It is, however, well known that the structural weaknesses of the African economies have led to the emergence of the crisis in the region. Consequently, the crisis itself has seriously deepened the structural deficiencies, thus leading to a vicious circle of crisis and entrenchment of underdevelopment. It is, therefore, inevitable that devices and preventative mechanisms must be formulated and effectively implemented, not only to mitigate the crisis, but also to prevent future recurrences. This would, however, call for a drastic change in attitudes, which will open up new dimensions, and for structural reforms compatible with the critical needs that will deal radically with the fundamental causes of development problems in the region. There is need not only for radically improved domestic policies, but also for careful specification of the roles to be performed by donors to support and sustain domestic policy reforms.

7. There is no doubt that Africa will require external assistance and support if it is to achieve a structural transformation and secure rapid and sustainable growth. External assistance should not only be positive in its magnitude, terms and conditionality, but must also address the basic structural issues that underline the crisis. While African countries are making every effort to cure permanently the deep-rooted malaise in their social and economic structures, international support measures should be such as to assist that endeavour. Thus, the donor community is called upon to address urgently and support positively Africa's long-term development needs in the following areas:

(a) The full execution of all commitments made to Africa by all developed countries and multilateral institutions, so that the concerned countries can effectively implement their national development programmes;

(b) Greater resource flows from all sources, in line with national and sectoral priorities and the needs of the region to sustain development and increase individual and collective self-reliance, as stipulated in the Lagos Plan of Action for the Implementation of the Monrovia Strategy for the Economic Development of Africa and the Final Act of Lagos (A/S-11/14);

(c) Support as a matter of urgency for the African least developed countries in accordance with the Substantial New Programme of Action for the 1980s for the Least Developed Countries; f/

(d) Increased support for the implementation of the Regional Plan of Action to Combat the Impact of Drought in Africa;

(e) A well-defined and articulated agricultural assistance package to form part of the implementation of the African Food Plan and to develop the rural sector;

(f) Increased support to Governments for the successful implementation of the Transport and Communications Decade in Africa (General Assembly resolution 32/160 of 19 December 1979), the Industrial Development Decade for Africa (General Assembly resolution 35/66 B of 5 October 1980) and the existing co-operative arrangements, such as the Preferential Trade Area for Eastern and Southern Africa and the economic communities established within the region.

8. The new modalities of assistance should be compatible with the following prescriptions:

(a) There should be a reallocation of ODA in favour of the poorest countries, especially those whose economies are prone to natural disasters;

(b) Donor countries should make every effort to provide assistance in the form of grants and highly concessional loans, on a united basis and in a timely co-ordinated manner;

(c) Donor countries should refrain from political and commercial tying of bilateral aid;

(d) Capital movements should be liberalized and capital controls, which have become onerous with the incidence of high indebtedness and default, should be relaxed;

(e) Debts should be consolidated on a long-term basis, such as capping interest rates by setting a ceiling and extending maturities;

(f) The period for consolidating debt services due should be at least five years and the repayment period for the consolidated amounts should be not less than 15 years (including substantial grace periods);

(g) Debt service should not be allowed to exceed a reasonable proportion of export earnings or of a country's gross national product;

(h) An international conference should be convened to deal with the existing external indebtedness of African countries and to elicit the pledging of additional financial resources on concessionary terms;

(i) The international financial markets and developed countries should be urged to develop fiscal, budgetary and monetary policies that would bring about substantial reductions in the level of interest rates that have to be paid by African countries, and to encourage large-scale bank lending to those countries;

(j) The World Bank should be urged to increase its medium- and long-term financing and to expand its structural adjustment lending programmes both in scope and duration, in conformity with the growing needs of the African countries;

(k) The seventh replenishment of the International Development Association, negotiated in the amount of \$9 billion, falls short of the needs of African countries and it is extremely important that supplementary funding of at least \$3 billion should be negotiated;

(l) The International Monetary Fund should reformulate the criteria of its compensatory financing facilities in favour of countries afflicted by natural disasters; and should make a substantial reallocation of special drawing rights in response to the current economic crisis, thereby restoring the reserves of African countries and increasing their credit-worthiness;

(m) The period within which the Fund envisages adjustment of the current-account balance of payments should be 5 to 15 years, associated with low interest rates;

(n) The Fund should be urged to resort less to devaluation policies, which are predicted on a strong supply-side response (practically inelastic and rigid in most African developing countries) and which seldom stimulate exports while adversely affecting the terms of trade;

(o) The international community should adopt measures that improve access to the markets of the industrialized countries, develop schemes of generalized preferences, negotiate long-term sales agreements, devise mechanisms for the transfer and development of technology, together with schemes for technical and economic co-operation on a multilateral basis, and generally promote South-South co-operation on a large scale.

9. Above all, Africa requires a better, more equitable international economic order, in which it will be an equal partner in the production, distribution and consumption of the world's wealth. The world order must take into account the real needs of Africa.

Notes

a/ Summary and recommendations of a paper submitted by the Economic Commission for Africa in response to the request of the Committee for Development Planning at its twentieth session in May 1984. Circulated to members of the Committee under the symbol CDP/21R/BP3.

b/ FAO, Monthly Bulletin of Statistics, vol. 7.

c/ Excluding Morocco and Zambia.

d/ Excluding Burundi, Morocco, Rwanda and Zambia.

e/ Excluding Morocco, Mozambique, Rwanda, Senegal, Somalia, the Sudan, the United Republic of Tanzania, Zambia and Zimbabwe.

f/ See Report of the United Nations Conference on the Least Developed Countries, Paris, 1-14 September 1981 (United Nations publication, Sales No. E.82.I.8), part one, sect. A.

Annex IV

AGENDA

(Twenty-first session, 19-21 November 1984)

1. Adoption of the agenda and organization of work.
2. World economic situation and prospects, including debt and the sub-Saharan crises.
3. Impact on development of domestic economic policies of developing and developed countries, including the issue of surveillance.
4. The future of multilateral economic co-operation.
5. The Committee's role and work programme (closed session):
 - (a) A three-year perspective, including areas/issues of concentration;
 - (b) The Committee's next report;
 - (c) Impact of the Committee's work;
 - (d) Other matters.

(Resumed twenty-first session, 20-23 April 1985)

1. Adoption of the agenda and organization of work.
2. Overview of the Committee's report:
 - (a) World economic situation and prospects, including debt and the sub-Saharan crisis;
 - (b) The future of multilateral co-operation.
3. Identification of the least developed among developing countries.
4. Finalization and adoption of the Committee's report (closed session).
5. The Committee's role and work programme for 1985-1986 (closed session).

Annex V

LIST OF DOCUMENTS

(Resumed twenty-first session, 20-23 April 1985)

<u>Document symbol</u>	<u>Agenda item</u>	<u>Title</u>
<u>Documents of the Committee</u>		
CDP/21R/2	2a	United Nations, "World economic conditions: main features, policies and prospects", <u>World Economic Survey, 1985</u> , Introduction to Part I (mimeographed).
CDP/21R/3	2b	"The challenge to multilateralism - Economic co-operation for global adjustment" (E/AC.54/1985/WP.1, 11 April 1985), working paper prepared at the conclusion of informal consultations conducted by D. G. Arsenis, Chairman of the Working Group on Interdependence and Multilateralism.
CDP/21R/4	3	"Identification of the least developed among the developing countries: the cases of Kiribati, Tuvalu and Vanuatu", note by the Secretariat, 1 April 1985.

Background documents

CDP/21R/BP1	2a	World Bank, "President's Report to the Development Committee" (26 March 1985).
CDP/21R/BP2	2a	United Nations, "Report on the emergency situation in Africa" (SG/CONF.2/1, 22 February 1985).
CDP/21R/BP3	2a	Economic Commission for Africa, "Africa's crisis and structural change: summary and recommendations" (26 March 1985).
CDP/21R/BP4	2a	"Implications of present tensions in the world economy", Statement by the Secretary-General of the United Nations to the Development Committee (15 April 1985).
CDP/21R/BP5	2a	International Monetary Fund, "Chapter I and selected statistical tables", subsequently printed in <u>World Economic Outlook, April 1985</u> .
CDP/21R/BP6	2a	"Translating recovery into growth: an UNCTAD view", paper submitted by the UNCTAD secretariat to the meetings of the Interim and Development Committees.
CDP/21R/BP7	2a	GATT, <u>Trade Policies for a Better Future: Proposals for Action</u> (Leutwiler Committee report) (Sales No. GATT/1985-1).

<u>Document symbol</u>	<u>Agenda item</u>	<u>Title</u>
CDP/21R/BP8	2a	Carlos Massad, "Debt: an overview", <u>Journal of Development Planning</u> , No. 16 (ST/ESA/154) (forthcoming).
CDP/21R/BP9	2b	G. K. Helleiner, "The new global economy: problems and prospects", from the third annual Timlin lecture delivered on 21 March 1985 at the University of Saskatchewan.

Other materials

John W. Sewell, Richard E. Feinberg and Valeriana Kallab, eds., U.S. Foreign policy and the Third World: Agenda 1985-86, U.S. Third World Policy Perspectives, No. 3, Overseas Development Council (Washington, D.C., February 1985).

Rutherford M. Poats, Development Co-operation, 1984 Review, Organisation for Economic Co-operation and Development (Paris, November 1984).

A/39/323. Letter dated 22 June 1984 from the Permanent Representative of the Union of Soviet Socialist Republics to the United Nations addressed to the Secretary-General. Contains statement on basic lines for further developing and intensifying economic, scientific and technical co-operation among the member countries of CMEA (annex I) and the Declaration of the member countries of CMEA entitled "Maintenance of peace and international economic co-operation" (annex II).

(Twenty-first session, 19-21 November 1984)

<u>Document symbol</u>	<u>Agenda item</u>	<u>Title</u>
<u>Documents of the Committee</u>		
CDP/21/2	2	United Nations, DPI/DESI Note/662 of 10 October 1984, updating estimates of output and trade growth published in the <u>World Economic Survey 1984</u> (United Nations publication, Sales No. E.84.II.C.1).
CDP/21/3	2	Rudiger Dornbusch and Stanley Fischer, "The world debt problem", Report to the Group of Twenty-four, UNDP/UNCTAD Project INT. 81/046, 19 September 1984.
CDP/21/4	2	"Review of the emergency rehabilitation and reconstruction situation in food-aid and drought-affected countries: Report of the Secretary-General" (A/39/594, 23 October 1984).
CDP/21/5	3	Recommendations of the CDP Working Group on Domestic Economic Policies and Surveillance.

<u>Document symbol</u>	<u>Agenda item</u>	<u>Title</u>
CDP/21/6	4	"Multilateralism in a more interdependent world - the need for a fresh start", report of the CDP Working Group on Interdependence and Multilateral Economic Co-operation (November 1984).
CDP/21/7	5a	"Progress report on the studies requested by CDP at its May 1984 session", note by the Secretariat (18 November 1984).
CDP/21/8	5c	"The annual report of the Committee for Development Planning", by Peter Adamson.
<u>Background documents</u>		
CDP/21/BP1	2	Overseas Development Institute, Briefing Paper entitled "Economic forecasts for the third world" (November 1984).
CDP/21/BP2	2	<u>IMF Survey</u> , 15 October 1984 (Annual meetings, 1984) and 29 October 1984.
CDP/21/BP3	2	<u>World Economic Survey 1984</u> (United Nations publication, Sales No. E.84.II.C.1).
CDP/21/BP4	2	UNCTAD, <u>Trade and Development Report 1984</u> , (United Nations publication, Sales No. E.84.II.D.23), Part I.
CDP/21/BP5	2	World Bank, <u>World Development Report 1984</u> , Part I.
CDP/21/BP6	2	Commonwealth Secretariat, <u>The Debt Crisis and the World Economy</u> , Report by a Commonwealth Group of Experts (27 July 1984).
CDP/21/BP7	2	World Bank, <u>Toward sustained development in Sub-Saharan Africa</u> (September 1984).
CDP/21/BP8	2	G. K. Helleiner, "The IMF and Africa in the 1980s", <u>Essays in International Finance</u> , No. 152, Princeton University Press, July 1983.
CDP/21/BP9	2	G. K. Helleiner, "Aid and liquidity: the neglect of the poorest in the emerging international monetary system" (October 1984). Paper for a conference organized by the Indian Council for Research on International Economic Relations on the International Monetary and Financial System, 17-19 December 1984.
CDP/21/BP10	3	<u>IMF Survey</u> (September 1984) (Supplement on the Fund).
CDP/21/BP11	3	World Bank, <u>World Development Report, 1984</u> , chap. 2, "Recession in Retrospect".

<u>Document symbol</u>	<u>Agenda item</u>	<u>Title</u>
CDP/21/BP12	3	Michael Stewart, <u>The Age of Interdependence: Economic Policy in a Shrinking World</u> , (MIT Press, Cambridge, Massachusetts, 1984), chaps. 7 and 12.
CDP/21/BP13	3	Gustav Ranis, "Debt, adjustment and development: The lingering crisis" (paper presented to the UNDP/North-South Roundtable meeting, Vienna, 10-13 September 1984).
CDP/21/BP14	3	Tony Killick, Graham Bird, Jennifer Sharpley and Mary Sutton, "The IMF: case for a change in emphasis", in Richard E. Feinberg and Valeriana Kallab, eds., <u>Adjustment Crisis in the Third World</u> , issued under the auspices of the Overseas Development Council (Transaction Books, New Brunswick, N. J., 1984).
CDP/21/BP15	3	Luis Angel Rojo, "A note on co-ordination of demand management policies in industrial countries" (16 November 1984).
CDP/21/BP16	4	Diego Cordovez, "Institutional elements of a new diplomacy for development", <u>CEPAL Review</u> , No. 23 (August 1984).
CDP/21/BP17	4	Address by Ambassador M. Dubey, Permanent Representative of India to the United Nations Office, Geneva, at the International Liaison Forum of Peace Forces, 10 September 1984.
CDP/21/BP18	4	Richard N. Cooper, "A monetary system for the future", <u>Foreign Affairs</u> , Fall 1984.
CDP/21/BP19	4	I. G. Patel, "The current crisis in international economic co-operation", <u>Journal of Development Planning</u> , vol. 14 (United Nations publication, Sales No. E.84.II.A.6).
CDP/21/BP20	4	Commonwealth Group of Experts, <u>The North-South Dialogue: Making it Work</u> , Commonwealth Secretariat, August 1982.