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#### NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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## CONTENTS

<u>Chapter</u>	<u>Paragraphs</u>	<u>Page</u>
I. MAIN FINDINGS AND RECOMMENDATIONS .....	1 - 8	1
II. DEVELOPMENT UNDER SIEGE: CONSTRAINTS AND OPPORTUNITIES IN A CHANGING GLOBAL ECONOMY .....	9 - 56	3
A. The outlook for the world economy .....	14 - 31	4
B. International policies to support the development process .....	32 - 45	10
C. Development planning under international constraint ...	46 - 56	14
III. IDENTIFICATION OF THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES .....	57 - 65	16
A. Burma .....	62	20
B. Zambia .....	63	20
C. Conclusions .....	64 - 65	20
IV. ARRANGEMENTS FOR FUTURE WORK .....	66 - 83	21
A. Proposed work programme, 1987-1988 .....	66 - 76	21
B. Review of the functioning of the Committee .....	77 - 83	23
V. ORGANIZATION OF THE SESSION .....	84 - 89	24

### Tables

1. Growth of gross domestic product, 1984-1987 .....	5
2. Median growth performance by country size .....	8
3. Indicators for Burma and Zambia .....	18

### Figure

Diversity of growth in developing countries, 1986 .....	6
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### Boxes

1. Do current policies permit higher growth? .....	27
2. Okita's seven-point plan for world development .....	30
3. Adjustment with a human face .....	32

CONTENTS (continued)

Page

Annexes

I. AGENDA .....	34
II. LIST OF DOCUMENTS .....	35
III. LIST OF THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES .....	37

## I. MAIN FINDINGS AND RECOMMENDATIONS

1. For several years now, international development policy has been besieged by pressing short-term concerns. Domestic problems and internal disputes over trade and macro-economic policy preoccupy the major actors in the world economy. Economic growth, investment for future growth and spending on health and education have fallen victim to extreme austerity and import strangulation in many developing countries. This is a serious setback to an international development policy which seeks to achieve the opposite, by development assistance and a vast array of efforts to improve living conditions in developing countries.

2. The biggest adjustments are still ahead, as the large industrial economies go about settling their imbalances and as the debt overhang is reduced to manageable proportions. There is real danger that those adjustments will not be orderly and controlled but disruptive and costly, unless co-operation is greatly strengthened.

3. Remedying the disarray in the global economy is, in the first place, the responsibility of those countries which have the greatest influence on world markets of trade and finance. As the United States of America tackles its staggering budget and current account deficits, Japan and other main surplus countries can take initiatives of their own to restore order. Channelling greater global savings into financing productive capital formation in developing countries will relax their severe import constraint and boost the stagnant export growth of industrial countries. It would contribute to greater stability in world trade and capital flows, while permitting surplus countries to maintain growth.

4. The time bought by the considerable efforts made to meet individual debt situations has not produced an effective solution to the debt problem. As emphasized by the Committee last year, there is a pressing need to augment the financial resources available to developing countries. Three of the dimensions of the need deserve special attention:

(a) A workable global strategy for a growth-oriented solution to the debt problem must be found - one which takes due account of the ability to pay, the need for growth, and the mutual interests of expanding trade and employment;

(b) Flexible measures for immediate liquidity need to be devised for the hard-pressed low-income countries whose debt service arrears are assuming alarming proportions;

(c) The multilateral financial institutions have to be provided with the resources that will enable them to play an expanded role in international adjustment.

5. Halting the erosion of the international trading system ranks high on the international agenda, and the current round of multilateral trade negotiations provides a vital opportunity that should not be lost. The need is for more open, non-discriminatory and predictable arrangements which would promote, not thwart, the growth of trade. The forthcoming negotiations will be made particularly

difficult by the large structural changes in process and by the need to enlarge the régime for international economic co-operation to include services. It is important that disagreement on that new dimension of international interdependence should not be allowed to derail progress. A more open trading system would help counter export pessimism, and reduce the fears of many developing countries that success in export markets is rewarded merely by retaliatory measures in importing countries.

6. The growth of industrial countries will be slower and provide less favourable markets of the traditional kind in the future. The medium-term outlook for developing countries is therefore bleak under current policies and trends, particularly for those that are unable to penetrate existing markets or restructure exports to new ones. However, inward-looking policies are not a preferred option. New trade patterns will need to emerge, and much will depend on the outcome of trade negotiations and prospects for increased trade among developing countries themselves. The forthcoming seventh session of UNCTAD provides an early occasion to assess policy options for trade and development in the changing global economy.

7. The prospect of a protracted process of adjustment lasting well into the 1990s has important implications for development planning:

(a) Domestic resource mobilization efforts will need strengthening;

(b) Public sector policies need re-examination. Unnecessary bureaucratic regulations should be phased out. Where necessary, the public sector should be reformed so as to enable it to play a catalytic role in promoting development and help to unleash the powers of initiative and self-help of the people;

(c) Public expenditures will need greater scrutiny in relation to national development objectives. Excessive defence spending is often an example of the mismatch between public expenditures and development objectives;

(d) Intrasectoral priorities need careful examination with respect to cost-effectiveness. Well-managed programmes targeted towards disadvantaged groups seem to have been successful and inexpensive, and should be examined closely.

8. There is a striking diversity in growth rates among developing countries. Some have fared less well than others because they have been affected very differently by declining commodity prices, cheaper oil and debt-servicing problems. Differences in development strategies and economic management are also important: there is a perceptible shift towards reform of fundamental macro-economic and institutional policies in many countries. However, generalizations and comparisons between developing countries in totally different stages of development and totally different circumstances must be avoided if discussions about international development policy are not to become sidetracked in unnecessary controversy.

## II. DEVELOPMENT UNDER SIEGE: CONSTRAINTS AND OPPORTUNITIES IN A CHANGING GLOBAL ECONOMY

9. The world economy in 1987 shows alarming signs of strain and stress. Huge imbalances persist in trade flows and international payments, while major exchange rates have undergone drastic realignments. Conflicts over trade policies have escalated to the highest political level. The constraints imposed by international debt become ever more acute, and many Latin American and African countries find themselves in extreme predicaments. Real commodity prices linger at the lowest levels in many decades. The growth of the industrial countries in Europe and North America is slower than in the past, and very high levels of unemployment persist.

10. But there are also positive developments. Initiatives have been taken to harmonize the economic policies of the major economic powers. Technological growth in the developed world is vigorous. Inflation in industrial countries has been contained, albeit at a high cost. Many Asian economies have been making remarkable progress in spite of the slow growth of international trade. In countries all over the world, major re-examinations of the functioning of their economic systems are under way, and important reforms have been instituted.

11. The contrasting features of the present situation may be assessed differently by individual observers, but together they bring out the great diversity that characterizes it and the seriousness of the issues at stake. It contains both constraints and opportunities, and the task of policy makers is to address the danger points as well as to reinforce the promising trends.

12. One must also look beyond the present situation for an appraisal of development prospects. The more fundamental trends point to the likelihood that world economic expansion may not in the near future return to the pace that characterized it in the 1960s. Those trends will need to be examined in greater detail. The Committee chose to explore only two broad questions:

(a) What can be done, in the mutual interest of all countries, to improve the general functioning of the world economy?

(b) How can developing countries respond to the current international environment?

The questions are distinct but interrelated. There are opportunities for development planning and national policy-making in conditions of greater international constraint. But international policies to support the development process and to ease the conditions of external constraints on national policies are indispensable.

13. The questions will be dealt with after a brief discussion of the global outlook under present policies. Meeting in April 1987 and faced with a rapidly changing (currently downwards) near-term situation, the Committee focused its discussion on the more medium-term outlook, which is relatively unaffected by changing judgements on the short term.

## A. The outlook for the world economy

14. The world economy is growing in spite of the global disarray. But flows of trade and capital show great and anomalous imbalances, and there is considerable downward risk stemming from financial and monetary instability.

15. The biggest adjustments are still ahead, as the large industrial economies go about settling their imbalances and as the debt overhang is reduced to manageable proportions. There is real danger that the adjustments will not be orderly and controlled but disruptive and costly, unless co-operation is greatly strengthened.

### 1. Diversity and divergence

16. The diversity in growth among countries and regions is very striking, as seen in table 1.

17. The average growth rate of the developed market economies was about 2.5 per cent in 1986 and is likely to remain there for 1987. Per capita growth was about 2 per cent, due to their low rate of population increase. Thus, the most affluent countries are enjoying five years of uninterrupted growth and rising living standards; at the same time, the exceptionally high rates of unemployment that have characterized the 1980s persist.

18. The Union of Soviet Socialist Republics and the centrally-planned economies of Eastern Europe accelerated their growth in 1986. Although growing faster than the developed market economies, in per capita terms both are growing about the same. Under a new policy thrust, decentralized decision-making is beginning to take shape.

19. The average growth rate of the developing countries rose in 1986, but the variation between them remains large. Several countries are growing quite rapidly and among them are some of the most populous ones. Altogether, some 65 per cent of the population in the developing world live in countries where per capita growth is over 2 per cent and thus equal to or greater than that in the developed market economies. (See the figure.) Since they include such low-income countries as China, India and Pakistan (whose starting base is low), the absolute increase in per capita income is small. <sup>1/</sup> Nor is there firm evidence as to the distribution of the gains within these countries. Still, it represents a probable modest gain against poverty, and a potential basis for future growth.



Table 1. Growth of gross domestic product, 1984-1987  
(Percentage)

	1984	1985	1986	1987	1985 population (millions)
World	4.5	3.4	3.0	3.2	4 837 <u>a/</u>
Developed countries	4.7	2.9	2.4	2.6	760
Japan	5.1	4.5	2.5	2.6	121
United States	6.5	2.7	2.5	2.8	240
Western Europe	2.4	2.3	2.4	2.4	331
Centrally-planned economies of Europe <u>b/</u>	3.8	3.6	4.3	4.1	394
China <u>b/</u>	12.0	12.3	7.0	7.0	1 060
Seven largest developing countries	3.6	4.9	2.6	3.5	1 437
Bangladesh	4.2	4.1	4.5	5.0	101
Brazil	4.8	8.2	8.0	3.8	136
India	4.9	4.5	4.0	4.5	759
Indonesia	4.2	1.9	0.0	1.0	166
Mexico	3.5	2.7	-3.5	3.5	79
Nigeria	-5.5	2.4	-5.0	0.0	95
Pakistan	5.3	8.2	7.0	6.5	100
Other developing countries <u>c/</u>	1.6	0.5	1.7	3.0	973
Energy importers	3.2	1.3	4.9	4.3	715
Energy exporters	0.1	-0.3	-1.5	0.5	258
Memorandum item:					
Hong Kong, Republic of Korea, Singapore, Taiwan Province of China	9.0	4.5	9.5	8.0	54
Sub-Saharan Africa	0.7	3.2	2.6	3.0	309

Source: Department of International Economic and Social Affairs, United Nations Secretariat.

a/ Figures might not add to the total since a significant number of countries and territories with small populations are not included.

b/ Net material product.

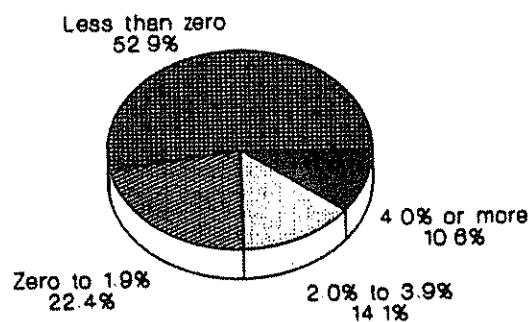
c/ Countries with populations below 75 million.

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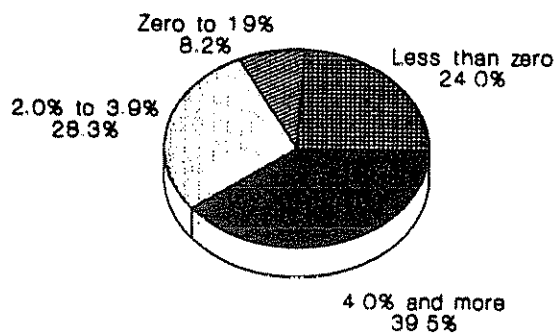
Figure 1. Diversity of growth in developing countries, 1986 a/  
(percentage distribution)

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A. Number of countries with real per capita GDP growth rates of:



B. Total number of people living in countries with real per capita GDP growth rates of:



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a/ Sample of 84 developing countries (see Table 2) and China.

20. For most developing countries, however, 1986 was a year of decline rather than growth. This was especially true in Africa and Latin America. In Africa, the return of the rain improved the situation of the region as a whole, but the number of countries where economic growth fell behind that of population growth still increased from 19 in 1985 to 22 in 1986. While per capita GDP in Brazil grew in 1986 by about 6 per cent, the average for the rest of Latin America declined by 1.5 per cent.

21. Where economic decline has occurred, particularly where it has been severe, social conditions have suffered. In many countries expenditure on health and education has been sharply cut. Country studies reveal disturbing signs of deterioration in child mortality, nutrition, or school achievement in the 1980s. 2/

22. In a period of decline there are many reasons why some developing countries have fared less well than others. Some have suffered more than others from declining commodity prices, and some have gained from cheaper oil, while others have lost. Although debt-servicing problems have affected all of them severely, the impact has been felt in different degrees. Differences in development strategies and economic management are also important: there is a perceptible shift towards reform of fundamental macro-economic and institutional policies in many countries.

23. The enormous changes in the world economy in the 1980s were unanticipated by policy-makers, both in developed and developing countries. Among the latter, those with inflexible economic structures and those that had borrowed heavily were particularly vulnerable to external shocks - such as the great increase in interest rates, the slow-down in international trade, and adverse terms-of-trade changes. The evidence suggests that smaller countries were generally the least insulated. Some smaller but relatively advanced countries, notably in Asia, are among the fast growers; and large countries are not immune to balance-of-payments constraints (as is indicated by the fragile state of the external accounts of the two largest countries, China and India). But as table 2 and the country references in table 1 show, median growth rates in countries below 20 million population have been distinctly lower than those in large countries.

24. It is particularly true for the African commodity producers, which tend to have one-sided and fragmentary economic structures and lack an industrial foundation to facilitate rapid adjustment, diversification and effective exploitation of the advantages offered by changing world markets.

Table 2. Median growth performance by country size a/  
(Annual percentage change)

Countries with populations in 1980 of	GDP		Population, 1981-1985	GDP per capita	
	1981-1985 (1)	1986 (2)		1981-1985 (1-3)	1986 (2-4)
Over 50 million	3.8	3.5	2.4	1.4	1.1
20 million - 50 million	3.1	2.6	2.1	1.0	0.5
5 million - 20 million	0.5	2.8	2.8	-2.3	0
Below 5 million	0.2	2.0	2.6	-2.4	-0.6

Source: Department of International Economic and Social Affairs, United Nations Secretariat.

a/ Sample of 84 developing countries or areas. Those with populations over 50 million in 1980: Bangladesh, Brazil, China, India, Indonesia, Mexico, Nigeria and Pakistan; those with populations between 20 million and 50 million in 1980: Argentina, Burma, Colombia, Egypt, Ethiopia, Iran (Islamic Republic of), Philippines, Republic of Korea, Thailand, Turkey, Yugoslavia and Zaire; those with populations between 5 million and 20 million in 1980: Algeria, Angola, Bolivia, Burkina Faso, Cameroon, Chile, Côte d'Ivoire, Dominican Republic, Ecuador, Ghana, Guatemala, Haiti, Hong Kong, Iraq, Kenya, Madagascar, Malawi, Malaysia, Mali, Morocco, Mozambique, Nepal, Niger, Peru, Saudi Arabia, Senegal, Sri Lanka, Sudan, Syrian Arab Republic, Tunisia, Uganda, United Republic of Tanzania, Venezuela, Zambia, Zimbabwe; those with populations below 5 million in 1980: Barbados, Congo, Costa Rica, Cyprus, El Salvador, Fiji, Gabon, Guyana, Honduras, Israel, Jamaica, Jordan, Kuwait, Liberia, Libyan Arab Jamahiriya, Malta, Namibia, Nicaragua, Oman, Panama, Paraguay, Qatar, Sierra Leone, Singapore, Somalia, Togo, Trinidad and Tobago, United Arab Emirates and Uruguay.

25. It is also true for the African, Latin American, and some Asian debtor countries, which tend to have comparatively large foreign financial commitments in relation to GDP and which experienced a significant increase in the domestic burden of debt servicing when interest rates rose. The per capita income of the large majority of those countries grew less, or fell more rapidly, than their per capita GDP in the first half of the 1980s. In Latin America, although domestic savings rates were maintained or even increased, the investment rate dropped from 23 to 16 per cent, largely as a result of the payment of interest on foreign debt.

26. The external environment for the majority of developing countries remains constrained. Commodity prices in 1986 reached their lowest levels in real terms since the Second World War. Some are still declining and most are not expected to recover the 1980 level in the near term. Oil prices are also expected in the near term to stay at the current level (of early 1987). Real interest rates remain

greatly above rates of growth of output and trade, which is not compatible with long-run growth or with overall stability.

## 2. Modest growth with risks

27. With a continuation of present policy stances, the outlook as seen by all international organizations and other forecasters involves a protracted adjustment process lasting well into the 1990s. Projections for 1988 and beyond suggest that there will be only moderate global economic growth. It is true that there is great uncertainty about even the medium-term future, but on balance the downside risks seem greater than the upside potential. The risks include:

(a) A failure to ease the financial constraints affecting the major debtor countries could lead to further contraction of their output and imports from industrial countries;

(b) The weakening of the dollar could lead to a rise in interest rates, both to sustain the capital inflow into the United States and to contain the inflationary effect of rising import prices there;

(c) A renewed surge of protectionist pressures is becoming increasingly possible, not only in the United States (where adjustment will require a substantial reduction in final demand) but also in those countries whose currencies have appreciated sharply (and who fear the damaging domestic consequences of an expansion in imports).

Thus, the timing of the next cyclical downturn, and several key assumptions underpinning current policy approaches, are subject to great uncertainty.

28. Even if the present disequilibria are successfully unwound, it is widely expected that growth in industrial countries will not return to the levels of the 1950s and 1960s, which many now regard as exceptional, but will stay on present trends, which accord more closely to long-run historical experience. One reason is demographic. Population is stabilizing in developed market economies, and the labour force is likely to grow even more slowly. The benefits of increasing productivity will also to some extent be taken in the form of increased leisure. A growing sensitivity to environmental concerns in densely settled industrial countries will also restrain many traditional forms of industrial expansion, and there may be a lag before the outputs of others compensate.

29. The arguments are diverse and speculative, but there is a fairly wide consensus that the growth of GDP in industrial countries in the remaining years of the century is unlikely to exceed 3 per cent a year. Recent experience indicates that that will be considered satisfactory by policy-makers although high unemployment levels will remain a matter of continuing concern. In the longer term, demographic trends in Western Europe will make the task of designing economic policy to improve the match between the supply and demand for manpower less intractable than has been the case in the 1980s.

30. The prospect of low growth in the developed market economies raises disturbing questions, especially for those developing countries that have long been dependent on the industrial world as an engine of growth. It implies a low rate of overall import demand from industrial countries, which have, so far, set the pace for international trade. A model prepared by the United Nations Conference on Trade and Development (UNCTAD), simulating the possible trends, suggests that, if past relations, especially with regard to trade shares, continue to hold, low growth for their exports would seriously constrain developing countries (see box 1). Assuming 2.5 per cent growth in industrial countries in 1985-1990 and slightly slower thereafter, Asian developing countries would grow at 4 per cent, less than in the past but still leaving room for substantial per capita growth. Latin American countries, constrained by the debt overhang and slow export growth, would grow at 3 per cent, only slightly above the rate of population growth. Many sub-Saharan African countries would be in an intractable position, growing at 2.5 per cent, less than the rate of population.

31. Such a scenario casts doubt on the viability of current development strategies, which assume an expansive international environment for the resolution of many problems: the servicing of debt through increased exports; the diversification of commodity-based production into new export sectors; the attraction of foreign investment and finance through policy reforms. The international trading and financial systems will need to provide more uniform incentives for those strategies to work and ensure the long-term survival of the postwar paradigm of international co-operation.

#### B. International policies to support the development process

32. For several years now, international development policy has been besieged by pressing short-term concerns. Economic growth, investment for future growth and spending on health and education have fallen victim to extreme austerity and import strangulation in many developing countries. This is a serious setback to an international development policy which seeks to achieve the opposite, by development assistance and a vast array of efforts to improve living conditions in developing countries.

33. A consistent and long-standing flaw in the functioning of the world economy has been that the burden of adjustment falls predominantly on deficit countries - in particular, on developing countries. Many international arrangements and facilities have aimed at correcting that asymmetry.

34. The experience of the 1980s has shown the arrangements to be totally inadequate and has brought out another fundamental weakness of the present international economic system: its tendency to react to disturbances in a pro-cyclical fashion and to deepen the problems of the global economy rather than to relieve them. The efforts to mount a co-ordinated approach have been limited and ad hoc, and they have met with limited success. Instead of dampening the shocks, the system has in some ways worked to reinforce imbalances.

35. The private capital market continues to provide resources to countries without debt problems, but the banks are withdrawing from many countries which have encountered most severe difficulties of adjustment and will not return until credit-worthiness has been restored, which is not likely to be in the near future.

36. There has been a remarkable wave of deregulation and internationalization in world financial markets in recent years, and some developing countries that participate in the process stand to benefit from it. Others have become seriously vulnerable to outflows of capital, sometimes indiscriminately referred to as capital flight, superior returns or favourable fiscal terms, and the greater political and economic stability in industrial countries encourage a gravitation of assets towards major financial centres. The least developed countries have not yet developed articulated financial markets, and they cannot expect any support from such sources.

37. On balance, commercial banks are not now providing fresh funds to developing countries but are, rather, withdrawing them. The international financing institutions - the World Bank, the IMF and the regional development banks - have built up a certain capacity to act in a situation of that kind and have today become more important than ever. But their contributions to net flows are also shrinking, as repayments to them are catching up with new lending (in the case of the IMF, net flows are now negative), and their resources have not been enlarged to keep up with the expansion of the world economy, far less with the need to fill the vacuum created by the declining role of the commercial banks.

38. Thus, the time bought by the considerable efforts made to meet individual debt situations has not sufficed to produce an effective solution to the debt problem. Instead, a perverse pattern has emerged in the international transfer of resources. The flows of resources from some developing countries redirect world savings towards the world's largest economy.

39. In 1986 the United States attracted greater capital inflows than all other capital-importing countries combined. Heavily indebted countries in Latin America, on the other hand, could not attract new funds. In order to meet interest payments on their external debts, many of them achieved trade surpluses by cutting back imports, which in turn contributed to the already enormous United States trade deficit and to increased levels of unemployment in industrialized countries. Such a situation is neither necessary, desirable nor in the interest of developing or industrialized countries.

40. Remedying the disarray in the global economy is in the first place the responsibility of those countries which have the greatest influence on world markets of trade and finance. The United States is in a very special position, being the most important trading nation in the world, the biggest debtor country in the world, and at the same time a major creditor to many developing countries.

41. As the United States tackles its staggering budget and current account deficits, Japan and other main surplus countries can take initiatives of their own to restore order. Although there are genuine problems in absorbing high savings rates in their domestic markets, the investment opportunities in developing

countries are large. Channelling greater global savings into financing productive capital formation in developing countries will relax their severe import constraints and boost the stagnant export growth of industrial countries. It would contribute to greater stability in world trade and capital flows, while permitting surplus countries to maintain growth.

42. The magnitude of the present disequilibria is such that their correction requires large and often painful changes in domestic policies in all countries. The required changes are well known and generally agreed to, but their implementation is not making any headway. It is obstructed by conflicts of interest which seem important in a short-sighted perspective. Domestic problems and internal disputes over trade and macro-economic policy preoccupy the major actors in the world economy. Micro-economic policies (e.g., protectionist measures) have been resorted to to meet macro-economic problems, tending to aggravate the situation. All countries, the mightiest as well as the weakest, stand to lose from a failure to recognize the common interest in an orderly restoration of greater equilibrium.

43. The principal elements of the international agenda are as follows:

(a) In view of present interdependence, Governments of the major economies have to consider more closely the joint impact of their macro-economic policies and make sure that they do not work at cross-purposes. The Okita proposal to utilize the Japanese surplus for world economic development (see box 2) needs wider support than it has received so far;

(b) As emphasized by the Committee last year, there is a pressing need to augment the financial resources available to developing countries. Three of the dimensions of the need deserve special attention:

- (i) A workable global strategy for a growth-oriented solution to the debt problem must be found, which takes due account of the ability to pay, the need for growth, and the mutual interests of expanding trade and employment. Events since the 1985 Seoul initiative and the weak growth outlook indicate that further financial adjustment is no longer possible and that more new financing and massive restructuring, through innovative institutional mechanisms, are needed;
- (ii) Flexible measures for immediate liquidity need to be devised for the hard-pressed low-income countries whose debt service arrears are assuming alarming proportions;
- (iii) The multilateral financial institutions have to be provided with the resources that will enable them to play an expanded role in international adjustment. That will require not only an expansion in the capital base of the World Bank but also a more sympathetic attitude on the part of major donors towards the financial needs of the regional development banks;



(c) It is essential to contain short-sighted protectionist pressures that seek to shift adjustment burdens to other countries and delay structural changes in the global division of labour;

(d) Development assistance should be concentrated on the neediest countries in recognition of the greater capacity of self-reliance that others have attained. However, ODA flows will still need to be enlarged: they are currently projected to grow at no more than 2 per cent a year in real terms, or less than population growth and less than GDP growth in industrialized countries;

(e) Regional integration, co-operation, and trade and payments arrangements among developing countries should be pursued vigorously and supported by donors, trade partners, and international organizations. That is in the mutual interest: pressures to export to traditional trading partners would be relieved by such trade creation and, in the longer-term, total world trade would benefit from the emergence of new growth poles;

(f) Attention needs to be given to the difficulties being faced by primary commodity producers. The underlying technical and political considerations behind the establishment of the Common Fund need re-examination in the light of present and future conditions in commodity markets. Measures to speed up the difficult process of diversification of the commodity-based economies also assume great importance in the present context;

(g) Greater assistance and resources should be allocated to poverty alleviation, social programmes and to national and global environmental concerns, which will also assist in stimulating the growth of the world economy;

(h) The whole question of environment and development raises basic issues of patterns and sustainability of world economic growth as well as of world-wide, national and local institutions and policies of co-operation.

44. Halting the erosion of the international trading system ranks high on the international agenda, and the current round of multilateral trade negotiations provides a vital opportunity that should not be lost. The issues to be addressed in the Uruguay round should not be seen as stark choices between free trade and autarky; but the need is for more open, non-discriminatory and predictable arrangements which would promote, not thwart, the growth of trade. Progress towards a more open trading system would counter some of the current export pessimism and reduce the fears of many developing countries that success in export markets is rewarded merely by retaliatory measures in importing countries.

45. The forthcoming negotiations will be made particularly difficult by the large structural changes in process and by the need to enlarge the régime for international economic co-operation to include services. In some cases services have more to do with finance, and in other cases more with investment, than with trade. It is important that disagreement on that new dimension of international interdependence should not be allowed to derail progress on improving the general functioning of the world economy.

### C. Development planning under international constraint

46. The problem raised by the relationship between the rate of growth in the developed countries and the developing ones is not new. In past decades, the concern of international development policy was to achieve for the developing countries a larger share in the growth of the industrial economies. Today, as we have noted, there are grounds to suspect that the growth of industrial economies will be slower and provide less favourable markets of the traditional kind in the future.

47. If the growth of the big markets of the old industrialized countries will remain slow in the future, there are three options for developing countries. One is increasing market penetration and market shares. Such a strategy has not helped the large number of primary commodity exporters, but the spectacular growth of the so-called newly industrializing countries (NICs) has rested on their success in obtaining vastly greater world market shares.

48. The Committee offers no unequivocal view on the export option. Some members consider that market penetration is the natural expression of structural change in the world economy and should be broadly recommended; others consider the reliance on export-led growth inadvisable when world markets are unpredictable or depressed; still others feel that the great diversity among countries prevents wide generalization, pointing to the disappointing experience of agricultural export strategies in Africa. All are mindful of the fallacy of composition and caution against thinking that what may be possible for a few developing countries is possible for all, as resistance would stiffen or prices would soften. However, that does not detract from the fact that there is general interest in maintaining open and efficient access to the potential for international division of labour. The more countries are able to increase their participation, the more stable and secure international economic relations will be.

49. The second option is increased trade among developing countries. Schemes to promote trade among developing countries have for the most part not been successful. None the less, developing countries have become more important customers of one another's products, with industrializing countries importing commodities from other developing countries and selling more of their own products to them. There have been spectacular increases in imports from other developing countries by OPEC members. That impulse has faded in the 1980s, and intra-trade in various regional integration schemes has languished or dropped substantially, as balance-of-payments difficulties have created a hard-currency problem. That shows the imperative need of adequate financing to deal with the pressing problem of currency inconvertibility. South-south trade remains a realistic and, in the end, inevitable option, which also will make its own contribution to international development.

50. The third option is to look inwards. The lesser vulnerability of larger countries to the international environment in the 1980s, partially a conscious policy choice by those countries, appears to have been to their benefit. Countries which did not open up their economies as quickly as others have escaped debt crises and export-led stagnation.

51. The Committee is divided on that option. Some members feel that countries determined to grow despite a hostile external environment must place greater reliance, on the margin, on their own domestic markets and resources, efforts and people. Others acknowledge that looking inwards need not mean delinking from the world economy or autarky, but they observe that import substitution strategies have tended in that direction by distorting prices and are inefficient, while outward-looking strategies are neutral. The Committee strongly feels that autarky is defeatist and not a viable option.

52. But certain opportunities to pursue development objectives remain, even in a harsh external climate. It has proved possible not only in countries of rapid growth but also in those with heavy debt service obligations which have been able to use domestic resources more efficiently.

53. Many - perhaps most - development planners are, in fact, not primarily concerned with the role of foreign resources. A large part of their development budgets come from domestic sources. Whatever their source, efficient utilization is fundamentally important. The rising volume of investment associated with one unit of additional output in many countries suggests that capital has been inefficiently used, although such capital-output ratios may be misleading when external demand failure leaves capacity idle or, for that matter, when domestic demand is drastically cut in a process of macro adjustment.

54. The most important factor in economic and social progress may well be human resource development. Numerous studies have shown that returns on human capital formation are at least as high as on physical investment. The declines in social indicators in many developing countries, noted above, are emerging signs of damage to human capital and social infrastructure in the present adjustment process. The losses will not be easily restored, since human capital accumulation is at best a slow process.

55. The prospect of a protracted process of adjustment lasting well into the 1990s has important implications for development planning:

(a) Domestic resource mobilization efforts will need strengthening. The successful Asian experiences - e.g., in mobilizing private savings - need to be examined by other countries in relation to their specific national contexts;

(b) Public sector policies will need to be re-examined. Unnecessary bureaucratic regulations should be phased out, and, where it is necessary, the public sector should be reformed so as to enable it to play a catalytic role in promoting development and help to unleash the powers of initiative and self-help of the people on which development ultimately relies. Greater opportunities for innovation and entrepreneurship, not least in the informal sector, fall under this heading, as well as the raising of the efficiency and integrity of public servants;

(c) Public expenditures will need greater scrutiny in relation to national development objectives. Excessive defence spending is often an example of the mismatch between public expenditures and development objectives. Informed public debate is an effective means of ensuring open decision-making and countering vested interests;

(d) Intrasectoral priorities need careful examination with respect to the cost-effectiveness of alternative development programmes. To cite only one example: the five-year postponement of just one urban hospital permitted the extension of immunization services to nearly all children in Pakistan. Well-managed programmes targeted towards disadvantaged groups seem to have been successful and inexpensive (see box 3). Such experiences should be examined closely by other countries.

56. Planning under constraint is what planners have been doing all along. What is different is that the constraint is tighter, the needs are greater and the objective function is now more complex. Finding optimal solutions for maximizing structural adjustment, growth, and poverty - alleviation objectives is not an easy task. The answer is likely to lie more in the practical experience of developing countries than in planning theory, and there is much experience in the field to be examined.

### III. IDENTIFICATION OF THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES

57. At its organizational session in February 1987 the Economic and Social Council requested the Committee for Development Planning, by decisions 101 and 109, to consider Burma and Zambia, respectively, for inclusion in the list of the least developed countries and to submit its recommendations to the Council at its second regular session of 1987. The Committee examined the cases of the two countries on the basis of the existing criteria and information pertaining to the criteria and of relevant information from United Nations agencies and the two Governments, as presented to the Committee by the Secretariat.

58. The Committee uses three criteria for determining the eligibility of countries for inclusion in the list of the least developed countries - namely:

(a) Per capita gross domestic product (GDP) at current market prices in United States dollars;

(b) Percentage share of manufacturing in GDP at current factor cost;

(c) Adult literacy rate (i.e., percentage of population 15 years of age and above that is literate).

The benchmark for the share of manufacturing is 10 per cent and that for adult literacy is 20 per cent. They do not change from year to year. The per capita GDP criterion, however, which is based on per capita GDP of the world market economies in terms of the United States dollar, has a lower and an upper cut-off point and is periodically adjusted for the rate of expansion in the per capita GDP of the world market economies between the base period average for 1970-1972 and the average for the latest three-year period for which data are available.

59. At its last general review of the least developed among the developing countries, which was carried out in 1975 on the basis of the data pertaining to the

average for the three-year period 1970-1972, the Committee set the lower and upper cut-off points of the per capita GDP criterion at \$125 and \$150, respectively. For the present exercise using data available in the United Nations statistical offices, the Committee updated the cut-off points to the three-year average for 1983-1985, 1985 being the latest year for which per capita GDP of the world market economies was available. The available information showed that the per capita GDP in current United States dollars of the world market economies had increased by 185 per cent since the earlier period. Accordingly, the adjusted lower and upper cut-off points are \$356 and \$427.

60. The Committee followed the rules regarding the application of the criteria it had established at its seventeenth session (1981). At that time the Committee had decided that a country would qualify for inclusion in the list of the least developed countries:

(a) If its per capita GDP fell below the lower cut-off point of the per capita GDP criterion and its manufacturing share was 10 per cent or less of the total GDP, and its literacy rate was 20 per cent or less; or

(b) If it satisfied the above two criteria, even if its per capita GDP exceeded the lower cut-off point, as long as it did not exceed the upper cut-off point; or

(c) If its per capita GDP fell below the lower cut-off point and it had a manufacturing share of 10 per cent or less of total GDP even if its literacy rate exceeded 20 per cent.

61. The data pertaining to the two countries under consideration are shown in table 3, and the criteria have been summarized below. The data on per capita GDP and share of manufacturing in GDP are averages for the three-year period 1983-1985 i.e., for the period corresponding to that used for updating the per capita GDP criteria. It will be noted that availability of data for the per capita GDP criterion sets a constraint to the period average for which the country data can be used for strict application of the criteria. At any rate, where available, country data for years beyond 1985 is also included in the table, and has been examined by the Committee. Information on the literacy rate shown in the table pertains to the latest year for which it is available. In addition to data relating to the formal criteria, the Committee reviewed information on the salient features of the two economies and their evolution in the recent past, obtained from the Governments, the International Monetary Fund, and the World Bank. In brief, that information revealed the following features.

Table 3. Indicators for Burma and Zambia

Source	Per capita GDP at current market prices in United States dollars		Percentage share of manufacturing in GDP at current factor cost		Adult literacy rate a/	
	Annual average, 1983-1985	1986	Annual average, 1983-1985	1986	Year	Percentage
<u>Burma</u>						
SO/UN	174 <u>b/</u>	..	9.7	..	-	-
Government	178 <u>b/</u>	..	9.8 <u>c/</u>	..	1983	78.6 <u>d/</u>
					1983	18.7 <u>e/</u>
IBRD	227	..	9.7	..	1983	67.0
UNESCO	..	..	..	..	1987	75-85
IMF	178 <u>f/</u>	..	9.7 <u>b/</u>	..	..	..
<u>Zambia</u>						
SO/UN	458	..	20.7	..	..	..
IBRD	439	..	24.0	..	1985	75.7
UNESCO	..	..	..	..	1985	75.7
IMF	440	203	21.0 <u>g/</u>	20.1 <u>g/</u>	..	..
Government	448	244	20.8 <u>h/</u>	22.9	1980	53.0

Note: SO/UN Statistical Office, Department of International Economic and Social Affairs, United Nations Secretariat.

IBRD World Bank

UNESCO United Nations Educational, Scientific and Cultural Organization

IMF International Monetary Fund

(Footnotes on following page)

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a/ Percentage of population 15 years of age and over that is literate.

b/ Average for the fiscal years 1983/84-1985/86.

c/ Average share of processing and manufacturing for the fiscal years 1983/84-1985/86. The Government's submission states, "The share of manufacturing in GDP is only 4.7 per cent in 1985/86. Even if the processing and manufacturing sub-sectors are taken together as a whole it is only 9.9 per cent of GDP at current market prices."

d/ The Government's submission states, "The level of literacy of 78.57 per cent obtained from the 1983 Population Census was mainly a reflection of monastic education level literates."

e/ Alternative estimate provided by the Government. It reflects post-primary educational attainments.

f/ Average for the fiscal years 1983/84-1985/86, at current producers' prices.

g/ At current market prices.

h/ The Government's submission states, "... the share of manufacturing in GDP is relatively high because a number of manufacturing activities are directly or indirectly linked to the copper mining industry which has a dominant position in the economy. These activities include the manufacture of chemicals and basic and fabricated metal products".

#### A. Burma

62. Burma had a population of some 36.2 million in 1984. Its economy is dependent on a few export commodities, mainly rice and timber. Rice accounts for about 40 per cent of export earnings. The general physical infrastructure is rudimentary. In recent years, the price of rice has declined, and the terms of trade have deteriorated. Imports and investments have been cut back drastically. Nevertheless, the trade deficit has increased and been financed by drawing down reserves and through external borrowing. The debt-service ratio has risen from 15.9 per cent in 1970 to over 50 per cent currently, according to the Government. Per capita GDP of Burma has been very low historically, and its share of manufacturing in GDP has been less than 10 per cent all along. Its literacy rate, however, is quite high. The Government has claimed that that literacy rate is not meaningful because it reflects largely monastic education.

#### B. Zambia

63. In 1984, Zambia had a population of some 6.5 million. The country has good agricultural potential, and agriculture is a promising source of growth, given adequate attention. It depends on copper for the bulk of its export earnings. Zambia's economic difficulties started in 1975 when copper prices were almost halved. Copper prices have remained depressed ever since. Decline in copper prices, production and export of copper, and substantial deterioration in the terms of trade have induced severe external and internal imbalances. By 1985 the volume of imports had to be reduced to 45 per cent of the level of 1974 and 60 per cent of that of 1980 on account of reduced export earnings and rise in import prices. Substantial under-utilization of capacity in mining and manufacturing has resulted, due to shortages of imported inputs. Agriculture has also been affected by such shortages. Real GDP has declined by about 1.5 per cent a year between 1975 and 1985. As a result of those phenomena, a high rate of growth of population estimated at 3.4 per cent a year and substantial devaluation of the exchange rate in recent years, per capita GDP fell from \$485 in 1977 to \$244 in 1986, according to data supplied by the Government. Economic reform measures have been introduced but will take some time to have their impact on economic growth. At present the country, with a debt-service ratio exceeding 50 per cent, is facing severe financial difficulties. Zambia has a high literacy rate and a fairly high share of manufacturing in GDP. The Government claims that the share of manufacturing in GDP is high because a number of manufacturing activities are directly or indirectly linked to the copper mining industry. Those activities, according to the Government, include the manufacture of chemicals and basic and fabricated metal products.

#### C. Conclusions

64. Upon examination of the available information, the Committee concluded that Burma met the existing application of the criteria for inclusion in the list of the least developed countries. The Committee recommends that Burma should be included in the list. With regard to Zambia, the Committee decided to suspend its judgement for at least one year and see how the economic situation evolves.



65. The Committee expressed deep reluctance to continue to assume responsibility for qualifying countries as least developed on the basis of criteria tentatively formulated over 15 years ago under the constraint of data then available on developing countries. As it has pointed out on several occasions in the recent past, the Committee considers the existing criteria to be inadequate for the purpose they are meant to serve. If so requested, the Committee would be willing to reappraise the issue with a view to formulating a new set of criteria in the light of data now available. The Committee wishes to reiterate the view it expressed at its twenty-first session: "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". 3/

#### IV. ARRANGEMENTS FOR FUTURE WORK

##### A. Proposed work programme, 1987-1988

66. The Committee agreed that the themes of its current session should be investigated further through a longer-term work programme, to continue through the three-year terms of its membership. Preparation for its next session will be undertaken through two working groups, supported by appropriate studies carried out by the Secretariat and outside experts, in the following two areas.

##### 1. The changing global economy

67. The period of the 1950s and 1960s can now be seen as one of exceptionally rapid growth in the global economy. Subsequent experience suggests that slower growth - and increased instability and uncertainty - are likely to characterize the global economy to the end of the century. Major structural changes are taking place in, among other things, demographic patterns, the location of industrial activity, the physical environment, the role of services, new technologies, the exposure of national economies to external developments and the character of international economic interactions. At the same time there is new instability in such spheres as primary commodity markets, financial flows and exchange rates. Those changes will have profound effects upon the people of the developing countries.

68. It is critically important that understanding of the functioning of the new global economy, and in particular the implications for the developing countries, be improved. The Committee noted the Secretariat's plans for preparation of the comprehensive report on the overall socio-economic perspective of the world economy to the year 2000 (pursuant to General Assembly resolution 40/207). As requested by the Assembly, the Committee proposes to convene a representative working group of from five to eight members and technical experts under the chairmanship of Shinichi ICHIMURA (New York, 7-9 December 1987), to review progress on the report. The full Committee looks forward to the opportunity of discussing and commenting on the report at its twenty-fourth session (April 1988).

69. In light of the manifest disappointments of earlier models, projections and plans for the global economy and the role of the developing countries therein, the Committee also proposes to organize a systematic and critical review of their methodologies, underlying assumptions, successes and failures. The review will consider both the quantitative and institutional dimensions of earlier projections constructed within the United Nations and other agencies. Emerging disequilibria and structural changes are, of course, inherently difficult to predict, but a careful consideration of modelling and projection experience, and particularly, the place of the developing countries in such global models and projections may generate useful guidelines for future policy and planning, both at the national and the multilateral levels. If global economic change continues to be erratic and unpredictable, more flexible and adaptive policy and planning will be required. The Committee's working group will initiate activities in that regard in conjunction with the review of the Secretariat's long-term perspective study.

70. The Committee requests the Secretariat to make the arrangements necessary for the preparation of the additional methodological and substantive studies required, inviting the contributions of relevant international organizations and national research institutions. Such studies would be suitable for publication in the Journal of Development Planning.

## 2. Human resource development

71. In a period of slow growth, national development programmes will require sharper priorities in the use of scarce resources - stressing domestic resource mobilization, the meeting of food and other essential needs for human resource development, the restructuring of public expenditures within social sectors and support to small farmers and the urban informal sector - for efficiency and distribution reasons. Determined internal and external efforts will be needed to ensure improvements in living conditions in the developing countries in the years ahead.

72. Poverty concerns have come to be unduly overshadowed by pressing short-term issues and need to be brought back on the international agenda. Domestic policies are nation-specific, but comparative analysis could capture the diversity of country experiences and reveal practical lessons of benefit to national planners - such as, the outreach of various primary services schemes, the experience in lowering incremental capital-output ratios and the success in targetting particularly vulnerable groups. Authoritative reviews are needed to stimulate further assessments and renewed attention.

73. The Committee proposes to initiate such reviews by convening a representative working group of from five to eight members and technical experts under the chairmanship of Gerasimos ARSENIS (Geneva, 16-18 November 1987) on the topic of human resource development. The Committee requests the Secretariat, in co-operation with the concerned international organizations, to survey their considerable experience in the field and compile relevant conclusions for national and international policy action. The Committee encourages the commissioning of comparative studies of planning experience and their publication in the Journal of Development Planning and other journals.

### 3. Other matters

74. In view of the need for a clear definition of the purposes that the list of the least developed countries is meant to serve, the Committee requested the Secretariat to prepare a short paper documenting the history of the eligibility criteria relating to that classification. The paper should also provide information on the experience and current status of other classifications of low-income or adversely affected countries and the consequent benefits for membership in those entitlements. The Committee would decide at a future date on the need to convene a working group on the item.

75. The Committee noted that it was unable to pursue the work programme on "adjustment with growth" adopted at its twenty-second session, 4/ in part because of inadequate preparation of the substantive studies required for an effective consideration of the subject. The Committee reiterates the importance of in-depth research and analysis commissioned by experts or the Secretariat, for the successful implementation of its work programme.

76. The Committee has been informed by the Secretariat that the proposed work programme can be carried out within present budgetary appropriations.

#### B. Review of the functioning of the Committee

77. The Committee was informed by the Secretariat of Economic and Social Council decision 1987/112, in which, inter alia, the Council requests all its subsidiary bodies to submit views and proposals regarding their functioning and that of their supporting machinery to the Special Commission of the Economic and Social Council on the In-depth Study of the United Nations Intergovernmental Structure and Functions in the Economic and Social Fields.

78. The Committee has a unique role in the intergovernmental structure in the economic and social fields. It is not an intergovernmental organ but rather an expert advisory body, whose members serve in their personal capacity. The Committee is also independent of the Secretariat, and its reports are distinct from the various economic surveys prepared by the different organizations of the United Nations system. The Committee's reports, which present in a concise manner its views and recommendations, are intended to stimulate the Council's annual general discussion on international economic and social policy and on regional and sectoral developments. It is hoped that the reports are also of interest to a wide audience, particularly policy makers in developing countries and development co-operation institutions around the world.

79. The Committee is frequently invited by the Council and the General Assembly to provide its recommendations on important questions, including the identification of the least developed among the developing countries and the formulation, review and appraisal of the International Development Strategy. The Committee feels its role in such instances is to provide independent professional judgement.

80. In resolution 1079 (XXXIX) of 28 July 1965, the Economic and Social Council provides the Committee with the mandate, inter alia, "to make any suggestions it may consider useful concerning the scope of its terms of reference". The Committee has regularly reviewed its functioning and, in the context of its work programme, has proposed various suggestions in past years. With the concurrence of the Council, many have been implemented.

81. Among the improvements implemented are the following: a broader approach to the subject-matter of planning, to include global issues and development policies; emphasis on views and recommendations; more in-depth analyses through advance preparation of reports and commissioning of outside studies by eminent experts; shorter plenary sessions; reduced processing of documents, particularly in-session documents; more informal servicing of working groups, usually without simultaneous interpretation; informal exchanges of views among members of the Committee and the Council; occasional resort to co-opted experts to ensure adequate geographical representation in meetings when regular members are unable to attend. Many of those improvements, in practice, have increased efficiency and cost-effectiveness.

82. The Committee benefits from the participation at its meetings of various international organizations and regional commissions. With the shift in emphasis to advance preparation of reports, contributions by observer organizations are perhaps more helpful at meetings of the Committee's working groups than at its plenary sessions. Since the agendas of its working groups are focused to particular topics, observer organizations are also better placed to determine in advance the potential usefulness of their participation in particular working groups. In that regard, the Committee feels that the travel of representatives of regional commissions to its plenary meetings, which is provided for within present budgetary appropriations, could be more discretionary. It could also be potentially more effective if the same resources could be applied, on occasion, for travel to meetings of working groups when their topics are of particular bearing to the work of specific regional commissions. The Committee proposes to interpret in that light the recommendation of the Committee for Programme and Co-ordination to grant its chairman authority to determine when travel of representatives of the regional commissions should be provided for from within its current budgetary resources.

83. The Committee does not propose further changes in its terms of reference or its methods of work. It may return to the matter at a later time, particularly if the intergovernmental structure in the economic and social fields should be modified in ways which suggest additional or different activities.

#### V. ORGANIZATION OF THE SESSION

84. The twenty-third session of the Committee for Development Planning was held at United Nations Headquarters from 21 to 24 April 1987. Twenty-one members of the Committee attended: Abdlatif Y. AL-HAMAD, Nicolas ARDITO-BARLETTA, Gerasimos D. ARSENIS, Edmar BACHA, P. N. DHAR, Adama DIALLO, Just FAALAND, Keith B. GRIFFIN, Patrick GUILLAUMONT, Armin GUTOWSKI, Mahbub ul HAQ, Gerald K. HELLEINER, Xiang HUAN, Helen HUGHES, Shinichi ICHIMURA, Henry NAU,

G. O. NWANKWO, Josef PAJESTKA, Mihaly SIMAI, Igor SYSOYEV and Ferdinand VAN DAM. Bernard CHIDZERO and Hernando de SOTO were unable to attend, and Carlos MASSAD attended as co-opted member. Sumitro DJOJOHADIKUSUMO had resigned from the Committee prior to the session.

85. The Committee elected the following officers for the term ending on 31 December 1989:

Chairman: Abdlatif Y. AL-HAMAD

Vice-Chairman: Mihaly SIMAI

Rapporteur: Just FAALAND

86. The Committee recorded thanks to those members who had completed their terms - in particular, the Chairman, Shridath S. RAMPHAL.

87. The session was opened by the Under-Secretary-General for International Economic and Social Affairs who, in welcoming the members, remarked on the potential role of the Committee over the next three years. While current issues demanded immediate attention, the Committee must also look to the longer-term future, and contribute to understanding of, inter alia, the changing global patterns of production and industrialization; the relationship between environment, demographic changes and development; the integration and transformation of world financial markets and their impact on capital movements and trade flows; the implications of new information and other high technologies; the relationship between improved nutrition, education, social participation and economic growth; and the genesis of autonomous impulses for development. The Committee should help shape strategies for development for the 1990s.

88. Substantive services for the session were provided by the Department of International Economic and Social Affairs of the United Nations Secretariat. The following bodies were represented at the twenty-third session: the Centre for Science and Technology for Development, the United Nations Children's Fund, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Institute for Training and Research, the Economic Commission for Europe, the Economic and Social Commission for Asia and the Pacific, the Economic Commission for Latin America and the Caribbean, the Economic and Social Commission for Western Asia, the World Food Programme, the International Labour Organisation, the Food and Agriculture Organization of the United Nations, the World Health Organization, the World Bank, the International Monetary Fund, the United Nations Industrial Development Organization, the International Atomic Energy Agency, the World Institute for Development Economics Research, the Organisation for Economic Co-operation and Development and the Commonwealth Secretariat.

89. Prior to the session, an informal working group of the Committee had been convened by the Secretariat (Geneva, 12-13 February 1987) at the request of the Secretary-General of UNCTAD to advise him on the major issues to be taken up at the seventh session of UNCTAD. The group was comprised of Gerasimos D. ARSENIS, Edmar BACHA, Just FAALAND, Gerald K. HELLEINER and Ferdinand VAN DAM.

### Notes

1/ Small absolute increases also get overwhelmed in aggregation, which is the reason why the relatively high growth rates are not reflected in global averages.

2/ Giovanni Andrea Cornia, Richard Jolly and Frances Stewart, Adjustment With a Human Face: Protecting the Vulnerable and Promoting Growth (Oxford University Press, 1987). Some 32 countries, mainly in Africa and Latin America, show evidence of deterioration in one or another of the three-named variables. Most evidence pertains to nutrition and schooling.

3/ Official Records of the Economic and Social Council, 1985, Supplement No. 9 (E/1985/29), para. 116.

4/ Ibid., 1986, Supplement No. 6 (E/1986/26), chap. V.

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Box 1. Do current policies permit higher growth?

According to the UNCTAD secretariat, a resumption of development is most unlikely under current trends and policies. The base-line scenario contained in its report to the Conference at its seventh session, "Revitalizing development, growth and international trade: assessment and policy options" (TD/328), assumes that developing countries constrain growth rates so as to stabilize their external accounts or, where possible, improve them. The significant import compression achieved over the past several years is maintained. Other assumptions for key parameters defining the international economic environment are shown in the table below. The growth rates for developing countries which emerge are modest and tend to erode with time.

Table. UNCTAD base-line scenario

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	<u>Results</u>				
	(percentage)				
	<u>1984-1986</u>	<u>1985-2000</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>
<u>Africa</u>					
GDP growth		2.5			
Export volumes growth		3.1			
Interest payments to exports	12.6		20.3	23.2	26.5
Debt to exports	272.5		376.4	428.3	484.3
<u>Asia</u>					
GDP growth		4.2			
Export volumes growth		4.2			
Interest payments to exports	4.6		3.1	1.6	1.8
Debt to exports	76.3		51.4	40.7	48.0
<u>Latin America</u>					
GDP growth		3.1			
Export volumes growth		3.3			
Interest payments to exports	19.8		16.2	9.3	4.8
Debt to exports	227.7		176.4	110.5	63.9

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Table (continued)

	<u>Key assumptions</u>			
	(percentage)			
	<u>1985-2000</u>	<u>1985-1990</u>	<u>1990-1995</u>	<u>1995-2000</u>
Interest rates (LIBOR)		7.3	7.3	7.0
ODA net flows, nominal growth		6.5	5.7	5.4
Private liabilities, growth		0.1	3.9	7.8
Developed market economies:				
GDP growth		2.5	2.4	2.3
Import elasticities:				
Total		1.7	1.6	1.6
Food	1.5			
Raw materials	0.7			
Energy	0.2			
Heavy equipment	2.2			
Other manufactures	1.7			
International price changes:				
Food	1.4	2.4	2.3	
Raw materials		1.4	4.4	4.0
Energy		-8.1	4.4	4.2
Heavy equipment		6.2	2.9	2.8
Other manufactures		7.0	4.4	4.2

Source: UNCTAD, "Scenarios of growth, trade, finance and debt: a technical note" (UNCTAD/ST/MFD/5), 1987.

Note: Growth rates are annual averages. Africa excludes Algeria, Libyan Arab Jamahiriya and Nigeria. Asia excludes the oil-dominant countries.

As shown in the table, the performance by region is related to the initial conditions of the external accounts and export performance. Asia, with relatively low debt indicators and high exports of manufactures, performs relatively well; Latin America, with relatively high debt indicators and high exports of manufactures, experiences relatively lower growth but is able to reduce its debt ratios. With commodity prices depressed, Africa, with relatively high debt indicators and low exports of manufactures, faces low growth prospects and rising debt ratios.

It would be difficult to increase growth rates sharply, even ignoring external constraints. Years of disinvestment have significantly reduced production capacities in many developing countries. But a gradual increase in the growth rate over a 10-year period, which would allow for expansion of domestic capacity, does not seem overly ambitious. Yet it is, in relation to the current international constraints.



To illustrate, a variant scenario allows for growth rates to rise gradually, up to about 6.5 per cent per year in the period 1995-2000. That requires a sharp rebound in imports, which results in a current-account balance, as a ratio of exports, some 140 per cent higher than in the baseline. On current policies and institutional arrangements, such imbalances would be intolerable and would not be allowed to emerge.

On the other hand, they would not need to emerge with policy changes in developed and developing countries, and stronger co-operation. A lower LIBOR, increased ODA flows, import propensities higher in developed countries and lower in developing countries, firmer commodity markets and enlarged trade shares for developing countries - all would contribute to dramatic improvements in the external imbalances of developing countries. Such changes would benefit the developed countries as well, both directly and indirectly: their export volumes grow at a rate some 27 per cent higher than in the base-line scenario.

However, even with such policy changes, Africa's debt indicators show a rising trend, suggesting the unavoidable necessity of debt relief. Substantial relief may also be required for individual countries in other regions.

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## Box 2. Okita's seven-point plan for world development

Former Committee member Saburo Okita, together with Lal Jayawardena and Arjun Sengupta, have proposed the following plan for realizing the potential of the Japanese surplus for world economic development: 1/

1. The international community should find ways to sustain higher growth in Japan in order to offset the decline in the momentum of the United States economy and counter any tendency towards world deflation.

2. While a part of the required policies would involve stepping up Japanese investment geared to its domestic market, there are real difficulties in absorbing domestically a rate of savings as high as 27 per cent of GNP.

3. For Japan's growth momentum to be sustained, therefore, there is a need for it to continue to rely to a substantial extent on export-led growth and to maintain a significant current account surplus in its balance of payments, in order to enable it to continue to "export" its excess savings abroad.

4. Japan's large current account surplus and its finding a large export market were primarily due to its comparative advantage in its export sectors, but it was also helped by the vast United States budget, and consequently, trade deficit.

5. Any reduction in the United States budget and trade deficit would tend to shrink, in the absence of offsetting policies, the external market for Japan and reduce the growth of its economy and hence that of the world. One such offsetting policy measure would be to enhance the import capacity of developing countries. This can be accomplished by redirecting the Japanese surplus to finance the deficits of the developing countries. This means that excess Japanese savings which cannot be absorbed domestically or in the United States could find a home in financing productive capital formation in the developing countries.

6. There is need, therefore, to evolve mechanisms for financial intermediation of Japan's surplus to this end.

7. Once this principle is accepted, the specific financial instruments and mechanisms can be worked out. They range from the notion of a Japanese Marshall Plan for the developing countries, as was recently proposed, to mechanisms for promoting Japanese investment in developing countries and increased lending by the Japanese international banks. Since the intermediation mechanisms have to enable private Japanese savings to find an outlet in developing countries, there may be a need for the Government of Japan to promote the process either by subsidizing the interest rate on loans to developing countries or by providing some collateral to Japanese private savings institutions to make investment in developing countries attractive. The considerable reduction in recent years in Japan's fiscal deficit in relation to GNP and in its interest rates should permit this to happen with relative ease in the coming years. In this context the Government of Japan could

take the initiative of contributing one tenth of 1 per cent (0.1 per cent) of its GNP to set up an international fund, while simultaneously inviting other industrial countries to join the fund by making a similar contribution. The fund would permit concessions and incentives of the sort mentioned above, which would mobilize private capital flows to developing countries that are a substantial multiple of the resources available from the fund.

#### Notes

1/ See Report of a Study Group of the World Institute for Development Economics Research of the United Nations University (Helsinki, WIDER publications, Study Group Series No. 1, 18 April 1986).

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### Box 3. Adjustment with a human face

According to UNICEF, the numerous successful examples of adjustment with growth and poverty alleviation have in common six main policy components: 1/

1. More expansionary macro-economic policies, aiming at sustaining levels of output, investment and human need satisfaction over the adjustment period. Structural adjustment of an economy normally takes much longer than conventional stabilization. A more gradual timing of adjustment and larger amounts of medium-term external finance will therefore be necessary.

2. The use of meso-policies - within any given frame of macro policy - to reinforce the more expansionary macro approach and to secure the priority use of resources to fulfil the needs of the vulnerable. Meso-policies determine the impact of policies towards taxation, governmental expenditure, foreign exchange, and credit (among others) on the distribution of income and resources. Essential aspects of meso-policies for adjustment with a human face are using policy instruments for prioritizing, selectivity and restructuring of resources and activities in favour of the poor, and of protecting the basic needs of the vulnerable, and in support of economic growth.

3. Sectoral policies aimed at restructuring within the productive sector to strengthen employment and income-generating activities and raise productivity in low-income activities, focusing, in particular, on small farmers and informal sector producers in industry and services.

4. Policies aimed at improving the equity and efficiency of the social sector by restructuring public expenditure both between and within sectors (in particular, away from high-cost areas and towards low-cost basic services), by improving the targetting of interventions and their cost effectiveness.

5. Compensatory programmes (many of limited duration) to protect the basic health and nutrition of low-income groups during adjustment before growth resumption enables them to meet their minimum needs independently. Two major elements of such programmes are public works employment schemes and nutrition interventions, encompassing targetted food subsidies and direct feeding for the most vulnerable.

6. Monitoring the human situation, especially living standards and the health and nutrition of low-income groups during the adjustment process, so that needs may be identified and the effectiveness of adjustment programmes be assessed and modified accordingly. The monitoring of human conditions - especially the health and nutritional status of the population, particularly those of vulnerable groups - should be given as much weight in monitoring adjustment as monetary variables have in the conventional approach.

### Notes

1/ Giovanni Andrea Cornia, Richard Jolly and Frances Stewart, Adjustment With a Human Face: Protecting the Vulnerable and Promoting Growth (Oxford, Oxford University Press, 1987).

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## Annex I

### AGENDA

1. Election of officers.
2. Adoption of the agenda and organization of work.
3. World economic situation and prospects and underlying long-term trends affecting development and structural change in the world economy.
4. Identification of the least developed among the developing countries: Burma and Zambia.
5. Work programme for 1987-1989.
6. Adoption of the report of the Committee.

## Annex II

### LIST OF DOCUMENTS

#### A. Documents of the Committee

1. "Provisional agenda" (E/AC.54/1987/1).
2. "The world economy, 1986-1988": note by the Secretariat (E/AC.54/1987/L.1).
3. "Project LINK global outlook 1987-1991" (E/AC.54/1987/L.2).
4. "Discussion document: State of development in 1987" (Conference room paper, April 1987).
5. "Identification of the least developed among the developing countries: the cases of Burma and Zambia" (Conference room paper, April 1987).

#### B. Background papers

1. UNCTAD, "Revitalizing development, growth and international trade: assessment and policy options" (TD/328).
2. "Scenarios of growth, trade, finance and debt: a technical note" (UNCTAD/ST/MFD/5).
3. Giovanni Andrea Cornia, Richard Jolly and Frances Stewart, Adjustment With a Human Face: Protecting the Vulnerable and Promoting Growth (Oxford, Oxford University Press, 1987).
4. Saburo Okita, Lal Jayawardena and Arjun Sengupta, Report of a Study Group of the World Institute for Development Economics Research of the United Nations University (Helsinki, WIDER Publications, Study Group Series No. 1, 18 April 1986).
5. ECLAC, "Preliminary overview of the Latin American economy, 1986" (No. 438/439, December 1986).
6. ESCAP, "Economic and social survey of Asia and the Pacific, 1986" (ST/ESCAP/487).
7. ESCWA, "Statement to the Committee for Development Planning" (April 1987).
8. "Note of the Secretary-General of the United Nations to the Development Committee", (Washington D.C., April 1987).
9. OECD, "Towards shared policy perceptions for development", (March 1987).

10. GATT, "International trade in the 1986 and current prospects" (March 1987).
11. P. N. Dhar, "Indian economy: past performance and current issues", (Delhi Institute of Economic Growth, 1987).
12. G. K. Helleiner, "North-South relations, then and now: 1976-86", Review/Outlook (Ottawa North-South Institute, 1987).



Annex III

LIST OF THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES

<u>Country</u>	<u>Date of inclusion on the list</u>
1. Afghanistan	1971
2. Benin	
3. Bhutan	
4. Botswana	
5. Burundi	
6. Chad	
7. Ethiopia	
8. Guinea	
9. Haiti	
10. Lao People's Democratic Republic	
11. Lesotho	
12. Malawi	
13. Maldives	
14. Mali	
15. Nepal	
16. Niger	
17. Rwanda	
18. Samoa	
19. Somalia	
20. Sudan	
21. Uganda	
22. United Republic of Tanzania	
23. Upper Volta	
24. Yemen	
25. Bangladesh	1975
26. Central African Republic	
27. Democratic Yemen	
28. Gambia	
29. Cape Verde	1977
30. Comoros	
31. Guinea Bissau	1981
32. Djibouti	1982
33. Equatorial Guinea	
34. Sao Tome and Principe	
35. Sierra Leone	
36. Togo	1985
37. Vanuatu	

<u>Country</u>	<u>Date of inclusion on the list</u>
38. Tuvalu	1986
39. Kiribati	
40. Mauritania	
41. Burma	1987