

COMMITTEE FOR DEVELOPMENT PLANNING

REPORT ON THE SEVENTEENTH SESSION

(23 March - 1 April 1981)

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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.

E/1981/27

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INTRODUCTION

1. The Committee for Development Planning held its seventeenth session at United Nations Headquarters in New York from 23 March to 1 April 1981. Twenty-two members of the Committee attended the session: Ismail-Sabri ABDALLA, Khatijah AHMAD, Maria AUGUSZTINOVICS, H. C. BOS, William G. DEMAS, José ENCARNACION, Jr., Gerhard FELS, Celso FURTADO, R. K. A. GARDINER, Shinichi ICHIMURA, Richard JOLLY, V. N. KIRICHENKO, John P. LEWIS, Li Zong, Gabriel MIGNOT, J. M. MWANZA, Joseph Elenga NGAPORO, G. O. NWANKWO, Goran OHLIN, Joizef PAJESTKA, I. G. PATEL and Germánico SALGADO. Two members were unable to attend: Abdlatif Y. AL-HAMAD and Leopoldo SOLIS.

2. The Committee elected the following officers for the term ending on 31 December 1983:

Chairman: William G. Demas
Vice-Chairman: Maria Augusztinovics
Rapporteur: Richard Jolly

3. At the opening meeting of the session, the Director-General for Development and International Economic Co-operation made a statement in which he drew attention to the deterioration in the international economic situation, as uncertainty and anxiety induced mounting protectionist and regressive policies. Resolution of the prevailing global crises, in his view, called for a clearer recognition of the interdependence between the developed and developing worlds and rested not on narrowly conceived partial remedies but on a coherent system of global management instituted over successive but interconnected stages, each of which had to succeed in tackling important problems. The problem of differing perceptions which lay at the heart of global misunderstanding was due not only to differences in objective conditions but even more to the intellectual legitimization of those conditions. The need was to provide a new intellectual framework which would fully recognize the nature and causes of the current situation. The challenge of change could not be met if it were not properly perceived. The Committee had an opportunity to contribute to meeting that challenge.

4. The Under-Secretary-General for International Economic and Social Affairs remarked on the role of the Committee since its establishment in 1966, particularly on the recent tasks assigned to it by the General Assembly and the Economic and Social Council in connexion with the formulation of the International Development Strategy for the Third United Nations Development Decade and the review and appraisal of its implementation. In this connexion, the Under-Secretary-General drew the Committee's attention to the Strategy as a frame of reference which could be enriched and implemented through international negotiations, particularly global negotiations.

5. Substantive services at the session were provided by the Department of International Economic and Social Affairs of the United Nations Secretariat. The Committee was also assisted by the representatives of the Department of Technical

Co-operation for Development and the Centre on Transnational Corporations as well as by the representatives of the secretariats of the Economic Commission for Europe, the Economic and Social Commission for Asia and the Pacific, the Economic Commission for Latin America, the Economic Commission for Africa, the Economic Commission for Western Asia, 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 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 Council for Mutual Economic Assistance, the European Economic Community, the Organisation for Economic Co-operation and Development and the Organization of American States.

6. The Committee adopted the following agenda:

1. Election of officers
2. Adoption of the agenda
3. Elaboration of regional and subregional aspects of the International Development Strategy for the Third United Nations Development Decade
4. Identification of the least developed among the developing countries
5. Arrangements for future work
6. Adoption of the report of the Committee to the Economic and Social Council.

7. To facilitate the work of the Committee at its seventeenth session, two working groups were convened prior to the session at the headquarters of the Economic Commission for Africa and the Economic and Social Commission for Asia and the Pacific, respectively. In addition, two visiting teams, each consisting of one Committee member and one staff member from the Secretariat, held discussions with officials of the Economic Commission for Western Asia and the Economic Commission for Latin America, respectively. The names of the members of the working groups and discussion teams are listed below:

Working Group on Development Priorities
and Policy Needs of Africa
(Addis Ababa, 29 September--
31 October 1980)

Ester Boserup
R. K. A. Gardiner (Chairman)
Gabriel Mignot

Working Group on Development Priorities
and Policy Needs of South and East
Asia
(Bangkok, 20-24 October 1980)

Maria Augusztinovics (Chairman)
Gerhard Fels
Richard Jolly
Li Zong
K. N. Raj (co-opted member)

Visiting team to the Economic
Commission for Western Asia
(Beirut, 25-26 September 1980)

H. C. Bos
O. Talwar (Secretary of the Committee)

Visiting team to the Economic Commission
for Latin America
(Santiago, 23, 24 and 27 October 1980)

Germánico Salgado
C. Ossa (Chief, Developing
Economies Section, United Nations
Secretariat)

8. The Committee expressed appreciation for the documents that had been prepared for its seventeenth session. These and other documents are listed in the annex.

Chapter I

THE WORLD CONTEXT OF THE 1980s

9. The new development strategy must "be built on a clear rejection ... of international stalemate and economic stagflation". Enormous gains to North and South would follow "if ... openness and dynamism could replace stagflation and growing protectionism in the world economy". 1/

A. World economic situation and prospects

10. The above statement was central to the 1980 report of the Committee for Development Planning which made recommendations for the new International Development Strategy. Now, a year later, the International Development Strategy for the Third United Nations Development Decade has formally been adopted by the General Assembly (resolution 35/56 of 5 December 1980). Inflation and recession continue, however, and prospects for an early recovery have worsened. The Committee for Development Planning thinks that its duty is to start the present report with an urgent reminder of the mounting obstacles to development, and the growing poverty and despair in the world. Unless the international community finds ways to break with stalemate and stagflation and recover dynamism, any pretence of achieving the goals of the Strategy must be abandoned.

11. The international economy is deteriorating very rapidly. In almost all industrial countries, both market and centrally planned economies, the rate of economic growth over the last two or three years has slowed substantially, compared with the average of the past decade. In some of these countries there is now clear stagnation. Unemployment in the developed market economies has risen to levels higher than at any time since the 1930s. The pace of growth of world trade, one of the more dynamic elements of the recent past, has decreased considerably. In spite of stringent efforts to restrain monetary growth, it has not been possible to eradicate inflation from industrial economies. With widely fluctuating exchange rates, and mounting indebtedness, rising inflation has led to an increased instability in international trade and financial flows.

12. Such difficulties have magnified development problems in the developing countries. During the last two years, reductions in the growth of their exports and deterioration in their terms of trade have reinforced the difficulties of development already under pressure from inflation, increases in external debt and the pervasive uncertainties which have been building up over the 1970s.

13. Not surprisingly the rate of economic growth of developing countries, which in spite of difficulties had averaged 5.3 per cent over the period 1976-1978, fell to 4.8 in 1979 and to 3.9 in 1980. In many developing countries per capita real

1/ Official Records of the Economic and Social Council, 1980, Supplement No. 2 (E/1980/3), para. 17.

income has not merely stagnated but has fallen, sometimes very sizably - in part, the result of a 7 1/2 per cent deterioration in their terms of trade in 1980. No improvement in performance is in sight for 1981. Thus, in the first year of the Third Development Decade, it is forecast that the increase in per capita income will be less than one third of the target solemnly adopted by the international community.

14. Particularly serious is the situation in the poorest countries. Per capita income had already declined from 1971 to 1977 in some 30 developing countries, including over 20 African countries with very low incomes. Their situation has since deteriorated further, often with very serious consequences for the mass of their population. World-wide inflation has been an important cause of this situation and has added to its consequences for the poor. Indeed, in many developing countries, even those with favourable records of economic growth, rural living standards and urban wages for low-income workers have fallen over the 1970s, often by considerable amounts. In consequence, malnutrition has often been rising. There is hardly a poor developing country in which the living standards of the mass of ordinary people will not have been worsened by the events of the last two years.

15. Growth in the economies of the members of the Organisation for Economic Co-operation and Development (OECD) has been sharply reduced - to 3.3 per cent in 1979, only about 1 per cent in 1980 and an estimated 1 per cent in 1981. As in developing countries, estimates of gross national product (GNP) give only a partial indication of the changes involved. Low growth in some industrial countries has been both a cause and a consequence of sharp reductions in government expenditure, with important repercussions on the level and quality of health, education and other social services.

16. A slowing down of economic growth has also appeared in the socialist countries. Their growth rates during the second half of the 1970s were markedly lower than in the preceding years, while capital/output ratios have risen owing mainly to structural factors, especially the need for increasing investment in agriculture and infrastructure. Economies of the socialist countries have also been influenced by the worsening world economic situation, particularly by the deterioration in export possibilities and the growing costs of energy. Socialist countries which relied widely on foreign credits have experienced the negative impact of the world economic situation, sometimes in a dramatic way. The socialist countries still expect and plan for a certain acceleration of economic development during the 1980s. They do not expect, however, a return to the high growth rates of the 1950s and 1960s.

17. World trade, which had shown signs of weakening since the mid-1970s, appeared in 1980 to be losing dynamism at an accelerated pace. The trade of developed market economies, which was one of the engines of world growth at the end of the 1960s and beginning of the 1970s, showed in 1980 a disturbing fall in its rate of growth. For Western Europe, from a growth rate in 1979 of 8.9 per cent for exports and 10.8 per cent for imports, the data for the first nine months of 1980 show a decline to 3.6 and 3.4 per cent, respectively. For North America, although the growth rate of exports increased - from 7.4 per cent in 1979 to 9.1 per cent in the first nine months of 1980 - imports show a fall in absolute terms: minus 6.9 per cent. More clearly than any other symptom this shows the loss of vigour and instability facing world trade at the present time. According to data of the Economic Commission for Europe, the volume of foreign trade of some of the centrally planned economies of Europe also shows a slowing down, especially in imports, which in 1979 increased at half the rate of the preceding year.

18. These trends have had immediate repercussions on the developing world. In effect, the annual rate of growth in the volume of developing country exports to the industrial economies, almost 6 per cent in the period 1976-1978, declined to 4 per cent in 1979 and virtually stagnated in 1980. If petroleum exporters were excluded, the corresponding figures would be 9 per cent in 1976-1978, 8 per cent in 1979 and 2 per cent in 1980. The impact on the balance of payments of a large number of developing countries, and on their capacity to service accumulated debt, is very considerable - and has, in turn, set in motion restrictive action, which reinforces the world-wide tendency to deflation.

19. If there is no reversal in these trends, and if protectionism rises as a reaction to the crisis, the developing countries will not only be far from reaching the targets of the International Development Strategy but will confront even more serious economic and social problems.

20. Yet, in the absence of a renewed international effort to resolve the problems hampering world trade, the developed market economies are likely to resort increasingly to protectionist policies. The process of integration among the developed countries which had been intensifying since the 1960s seems now to have come to a halt, partly through lack of co-ordination in adjustment processes and partly through failure to harmonize policy in certain key economic and social areas, such as incomes policies. Growing differences exist among the industrial countries in their productive efficiency and their capacity to adapt to innovation and institutional change. This is leading the less dynamic countries to resort to increasing protectionism as the easiest way to avoid disequilibrium in payments and financial flows. In effect if not in theory, the anti-inflationary policies prevailing at present intensify this move to protectionism and contribute to even greater differentiation among the industrial countries, in a vicious circle of unfortunate effects.

21. In short, the international economic system is confronted with a deep malaise, with little evidence of the vision or determination needed to overcome it. A very serious situation may be emerging in the world economy, the gravity of which could most seriously affect international economic and political relations in the 1980s. And the impact on the lives of millions of people is already proving disastrous.

B. Underlying causes and costs of the crisis

22. The causes that have led to these conditions are complex and controversial. This is not the place to embark on a detailed analysis, but several basic points must be made. First, a loss in dynamism in some of the major industrial countries was already evident from the late 1960s, showing itself in a declining trend in productivity, which in some cases had stagnated. In part, this was a symptom of obsolescence and inadequate adaptation to technological progress. Underlying this were often rigid social structures and insufficient mobility of labour, reinforcing conflicts over distribution that made extremely difficult the application of incomes policies and impeded adjustments in the labour markets. Stagflation reflects these long-standing phenomena of social inflexibility and obsolescence of productive structures, which the energy crisis of the 1970s only served to bring out more sharply.

23. Secondly, the energy crisis has had a serious impact on most oil-importing countries of the world. This crisis is often attributed to the major oil price

increases of 1974 but in fact most analysts agree that its origins are much earlier. After a long period of cheap oil, a marked imbalance in the supply and demand for energy began to develop at the end of the 1960s, making a major increase in prices inevitable. When prices were raised in 1973/74, the increase was large and sudden, creating large deficits in the balance of payments of many industrial and developing countries. The nature of the policy response as well as the speed and magnitude of the adjustment process in most of the deficit countries added to the deflationary process in the world economy, which was only partly offset by recycling of surplus from the capital surplus, oil-exporting countries.

24. Large-scale international borrowing and the continued economic growth in middle-income developing countries in the 1970s made a significant contribution to the maintenance of world demand and exports and employment in industrialized countries. With the new price increases in world energy markets in early 1979 - itself largely the result of continuing long-run imbalance in the supply and demand for energy - this stabilizing element is now in jeopardy, however. Both creditors and borrowers view the already accumulated debts with apprehension. Much of this debt has to be rolled over within only a few years. At the same time, rising deficits call for new financing, and present levels of interest rates discourage investment and make for an explosive growth of the debt burden. All this has given renewed urgency to the need to improve the channels for recycling the surpluses of some oil-exporting countries in ways that meet the legitimate interests of all parties.

25. Thirdly, with rising inflation over the 1970s, virtually all Governments of developed market economies have come to accord high priority to controlling it. It has become clear that modern inflation is a highly complex phenomenon. Many of its causes in any particular country are to be found in policies pursued over a long period of time which have instilled expectations making for cumulative and accelerating inflationary pressure. Governments of most developed market economies are now convinced that inflation must be decisively slowed, but most of them find it difficult to pursue effective incomes policies, and the only tools that they consider adequate to the task are those of monetary and financial restraint. They are, therefore, paying the high costs in terms of lost growth and unemployment that a strenuous anti-inflationary effort by such means entails. It is also increasingly clear that these anti-inflationary policies are having a most dangerously constricting effect on the world economy.

26. While a measure of monetary, financial and fiscal restraint in the present context is no doubt necessary in many developed market economies, we would stress two important limitations of such policies. First, in many countries excessive reliance is being placed on these types of restraint, with their very heavy domestic economic and social costs, to the neglect of other policy alternatives

which have lower costs. 2/ Secondly, the world-wide costs of these policies of restraint, including the adverse repercussions not only on other developed countries but also on many millions of poor people in poor countries, is usually neglected in the preoccupation with domestic concerns when such policies are adopted.

27. Moreover, it is by no means clear that anti-inflationary policies are succeeding in alleviating inflation. In several OECD countries inflation is still rising and it is forecast that it will slow down only marginally. By mid-1982, the average OECD rate of inflation is still expected to remain significantly above the single-digit level prevailing around 1978, and far beyond the under 4 per cent averages of the 1960s. An analysis by OECD of the causes of inflation show that domestic factors have been overwhelmingly important. Among the seven major OECD countries over the period 1978-1980, domestic increases in unit labour costs, profits, etc. are estimated to have accounted for almost 90 per cent of the inflationary increase per year. Although the over-all influence of domestic and international factors cannot clearly be separated, it is noteworthy that changes in the international terms of trade accounted for an estimated 10 per cent of the total increase, in spite of this being a period when the price of internationally traded oil increased by about 150 per cent. 3/

28. The policy response to the increase in the price of internationally traded oil has, however, had a marked effect in reducing output. It has been estimated by OECD that the end-1981 level of GNP in the developed market economies is likely to

2/ Although evidence is uncertain and situations differ from country to country, four conditions increasingly seem necessary for inflation to be brought under control in the developed market economies: the adoption of some form of incomes policy, voluntary or mandatory; more flexible labour force attitudes and labour market institutions; a greater degree of competitive pricing in product and other factor markets; and an investment and restructuring programme, sufficient to avoid supply-side bottle-necks as the economy is forced to adjust to internally or externally induced changes. In the case of Japan, rapid economic growth and a basic social cohesion have seemed to permit the achievement of these conditions, thus enabling growth to be achieved with a low rate of inflation. In most of the other developed market economies, the failure to fulfil one or more of the conditions appears to have prevented the achievement of inflation-free growth. However, and this is more serious, the very restrictive policies which were then set in motion to restrain inflation, by reducing growth may often be inhibiting the investment and restructuring required to achieve inflation-free growth in the future. A vicious circle may thus have been created which cannot be broken except by a more fundamental break with restrictive policies. Already there are in some countries indications of changes in thinking, especially the recognition that some direct action on incomes will be necessary if inflation is to be slowed. Even those advocating strong policies of monetary and financial restraint, based on the assumption that investment and growth will be restored after a period of severe deflation, increasingly seem to accept that some direct restraint of wages will be needed, starting with the public sector both during the period of squeeze and in the upswing when investment revives.

3/ Economic Outlook, No. 28 (December 1980).

be some \$550 billion, i.e., 6 1/2 per cent, below what it might otherwise have been, owing not only to the rising cost of energy but also to the associated tightening of fiscal policy. ^{4/} Although the calculation formally attempted to exclude the direct impact of monetary policy, it is not easy to separate the effects of these various factors, but such calculations indicate the very high costs to the developed market economies of unco-ordinated adjustment and continuing structural imbalances in the existing international economic order.

29. The costs in terms of rising unemployment in the OECD countries are also considerable. Unemployment in the OECD countries, already 23 million, seems likely to rise sharply to 25 1/2 million, or nearly 7.5 per cent of the labour force. The latest estimated rate of unemployment for the seven major industrial countries is 6 1/2 per cent - compared with 4.4 per cent over the 1970s and 2.9 per cent over the 1960s. Forecasts suggest that the average rate of unemployment will rise further. Among persons below 25 years of age, it is forecast that unemployment in the OECD countries will increase from 10 per cent in 1979 to 14 per cent in 1982 - and in three countries of Western Europe as high as 18, 20 and 32 per cent. ^{4/}

30. The repercussions of these policies on almost every region of the third world, particularly on employment, food production and income distribution have been very serious indeed, as indicated in chapter II below.

C. Priorities for international action

31. The Committee is convinced that solutions to all these problems can only be found in the context of a global framework of adjustment and co-ordinated action to restore greater openness and dynamism in the world economy. Such solutions will need to take account of various viewpoints not only of market efficiency but of greater world stability and harmony and of greater world justice. The balance-of-payments problems as well as inflation are manifestations of a global phenomenon of interdependence distorted by erroneous policies and rigid institutions.

32. As regards inflation, it must be recognized that it is a global phenomenon - needing a global frame of analysis and internationally agreed policy measures.

33. Protectionism cannot bring any long-term solution to world problems. It is a symptom of a malaise and not a cure for it. When protectionism brings some results, they can be seen only in further differentiation among the developed economies and in harmful effects for the weaker partners, particularly for the poor developing nations.

34. History shows how the opening of new markets can play a major role in economic expansion. Ironically and tragically, it is increased military expenditure which is providing the expanding demand in the world economy today, fuelling inflation as a by-product. Meanwhile the basic needs of millions go unmet, through failure to provide opportunity and resources to turn human need into effective demand.

35. If existing trends and mechanisms continue there will be very little chance of implementing the International Development Strategy for the Third United Nations

^{4/} Ibid.

Development Decade. Changes in the international economic order have to be much deeper than the ones which can be devised using traditional, pragmatically oriented measures. This is the real challenge before the world community. We are not optimistic enough to expect the necessary changes to be devised and implemented in the near future. A longer period will probably be needed before it becomes clear that current policies are not achieving the hoped-for results and a consensus for international action develops. Some countries and many intellectuals and experts have already concluded that a fundamental change in economic policy will be needed. Even now, they should be actively preparing for a wider change in thinking and action.

1. Action by the developed market economies

36. The developed countries need first to recognize that relations between developed and developing countries are at the centre of the present world economic disorder, not peripheral to it. It is a dangerous illusion to think that attention to these relations can be postponed until conditions have improved. The delays and stalemates that characterized international policy making in 1980 have only weakened the world economy to the detriment of all countries.

37. The present worsening of the world economy has not come unexpectedly. The disruptions of the international economy in the 1970s have called forth repeated warnings of the serious consequences of continued erosion of international co-operation. The deterioration we have described has been man-made - the predicted consequences of failure to take action. Continuing deterioration confirms the earlier warnings and underlines the need for action to reverse present trends, not in some remote future but immediately.

38. Some initiatives have indeed been taken. The international financial institutions have sought to move in the right direction, within the limits set by their member Governments. Some aid-givers have shifted some of their aid towards the neediest countries; but, on the whole, preoccupied with their internal economic difficulties, Governments of most developed market economies have withdrawn from international action.

39. We cannot be optimistic about the prospects for a strong and decisive reversal of international policy - at least not in the short run. Although we are convinced that wide-ranging efforts to restructure world economic relationships are urgently needed, and on balance would offer enormous benefits to countries in all parts of the world, realism compels us to accept that the major industrial countries are not prepared to agree to such action in the foreseeable future. Without abandoning the search for more fundamental longer-term solutions, we would therefore urge the developed market economies and the world community to consider urgently the need for a more limited number of initiatives. These we believe are needed to avert further deterioration in world trade and output which would be harmful to all countries and catastrophic for the poorest. Action in six urgent - and feasible - areas is required.

(a) Developed market countries need to support much more actively further initiatives by the international financial institutions to enlarge flows of quickly disbursable funds in order to facilitate recycling and to maintain world demand. For the low-income countries, a significant measure of concessionality will be necessary.

(b) Bilateral development assistance funds should be substantially increased and a larger proportion made available to the poorest countries. In our 1980 report we proposed that two thirds of net official development assistance (ODA) should be allocated to the low-income countries beginning as soon as possible.

(c) Practical and specific steps for greater co-operation between oil-exporting and oil-importing countries must be energetically pursued, in order to negotiate an end to the instability and unpredictability of energy prices and exchange rates of major currencies, as well as to encourage more effective conservation. This, it is hoped, will be one of the key issues tackled in the course of global negotiations.

(d) Decisive action must be taken to arrest protectionist trends, which aggravate inflationary pressures and jeopardize the debt-servicing ability of deficit countries. Rapid agreement on improved safeguard procedures should receive high priority.

(e) Additional international support is needed for investment in the agricultural sector of the third world. The international community needs to contribute urgently and more generously to the replenishment of the International Fund for Agricultural Development (IFAD) in order to promote investment in this sector in needy third world countries. The international community also needs to proceed rapidly to establish a food facility at the International Monetary Fund to finance short-term and urgent food requirements for the poorest countries of the third world. There is also need to promote and strengthen the World Food Programme with a world-wide campaign to ensure that projected targets for the Decade are realized.

(f) The international community should devise a system of food security under which, at times of market stress, food import needs of poor countries can be met at reasonable price levels. To this end, among other steps required, a food crisis contingency reserve, completely independent of market forces, should be established.

40. These proposals parallel those of the emergency programme of the Brandt Commission 5/ whose report the Committee welcomed last year. A North-South summit, also proposed in the Brandt report, is now planned for October 1981. We strongly support those who look to the summit for initiating action in these crucial areas.

41. The further economic deterioration over the last year leads us to underline in addition the urgent need for special assistance to Africa south of the Sahara and South Asia. In particular, the Committee feels that the case of the former needs special mention and attention. The countries of this subregion are not only late starters on the path of development, but they include some two thirds of the 30 countries classified as the least developed. Their infrastructural and technical base is often rudimentary, and virtually non-existent in some sectors. A special crash programme of assistance from the developed countries and the rest of the third world is not only necessary but urgent, to enable Africa south of the Sahara to establish the basis for development. Apart from increased technical assistance, such assistance could include a very large element of concessional finance through agreement that a given percentage of ODA should be made available

5/ North-South: A Program for Survival (Cambridge, Mass., The MIT Press, 1980).

to the countries of the subregion. Similar special assistance should also be extended to the poverty belt of South Asia.

42. The Committee emphasizes that a wider range of efforts to reform international economic relations must also be initiated without further delay in order to restore the viability of the world economy and promote the investment that is badly needed in all parts of the world.

2. Action by the developed centrally planned economies

43. The developed centrally planned economies should also make a stronger and more innovative contribution to the implementation of the aims and goals of the International Development Strategy, which they support and share. This should include efforts to create more favourable international political circumstances for the successful implementation of the Strategy as well as to promote the accelerated social and economic development of the developing countries.

44. The major basic areas for continued and expanded economic, scientific and technical co-operation between the developed centrally planned economies and the developing countries include the following:

(a) Development of natural resources;

(b) Creation and expansion of industrial and energy-producing capacities, as well as development of transport, agriculture and related sectors;

(c) Promotion of exports from the developing countries of semi-manufactured and finished industrial goods, on a preferential basis, including where relevant the granting of tariff preferences to them;

(d) Ensuring favourable conditions for the repayment of credits and loans given by the centrally planned economies so as to avoid excessive indebtedness and financial instability caused by debt servicing, thereby improving the general financial position of the developing countries;

(e) Assistance in training national personnel in essential occupational specialties, including on-the-job instruction of skilled workers and middle-level technical personnel in the course of the construction and operation of projects;

(f) Assistance in elaboration of a methodology for formulating national social and economic development plans.

45. New forms of co-operation among developed centrally planned economies and developing countries may also be envisaged. Centrally planned economies have had long experience of long-term bilateral and multilateral balanced trade agreements. Such agreements can have a particularly important role as a means for expanding trade in a difficult or deteriorating world economy. Large-scale projects could be carried out with the participation of a number of interested countries within a region and within the framework of long-term intergovernmental agreements and programmes over periods of 10 to 15 years. They could be of particular importance in the present context if they provided for expanded trade, greater industrial, scientific and technical co-operation and the stabilization of commercial prices over the longer term.

46. The expansion of economic co-operation with interested developing countries needs to be, as far as possible, on concessional terms and needs to cover a large number of countries, especially those with low per capita incomes.

3. Action by all countries on disarmament

47. We have already underlined the various ways in which rising levels of armaments expenditures in many countries represent an ominous threat to the security of mankind. They also represent a serious economic burden, increasing inflationary pressures and the burden of public expenditure at a time when less inflationary forms of public expenditure, which generate more employment and contribute directly to community and family welfare, are being sharply cut back. It must be the duty of countries in all parts of the world to seek ways of reducing the tensions and distrust which occasion this disastrous course.

Chapter II

REGIONAL ASPECTS

48. Developing countries have entered the decade of the 1980s not only in a world setting much more depressed than that prevailing at the onset of the 1970s, but with a greater diversity of country experience and socio-economic conditions. International and regional policy requires increasingly to take account of these differences in their individual and collective development problems and needs.

A. Regional contrasts and parallels

49. Greater diversity in development experience is clearly evident at the regional level (see E/AC.54/L.102 and Add.1). In all regions, there are countries which have developed rapidly in spite of international difficulties; their average incomes and standards of living have risen substantially; their economies have become increasingly diversified and complex; their pool of technical and managerial skills has been steadily growing; some of them have emerged as successful competitors in world markets for manufactured goods. Broadly, East Asia, West Asia and the central belt of South America - it should be noted, however, that Brazil alone accounts for a large part of South America - have been making major gains in respect of both the level of per capita income and the pace of expansion. The Central American and Caribbean subregions have not fared so well in respect of increases in per capita real income, with per capita real product falling in some Caribbean countries over the last few years. On the other hand, in some of the West Asian countries, which are major exporters of petroleum, incomes have risen dramatically, but the economies of these countries are still relatively undiversified.

50. At the same time, there are a large number of countries, in all regions, that continue to face acute poverty and under-development. Many of them have not been able to overcome the trends of sluggish expansion and diversification of their economies; low average incomes and standards of living have continued to be their unfortunate distinguishing characteristics; for many, shortages of skills and basic infrastructure facilities remain critical. In particular, the countries comprising the two depressed zones of Africa south of the Sahara and South Asia have lagged considerably behind by all indicators of economic and social progress (see E/AC.54/L.102/Add.1, tables 1 and 2). These countries account for a large majority of the people living in the developing countries, excluding China. Among those countries, moreover, are most of the least developed and the land-locked developing countries.

51. Notwithstanding these contrasts, three major development problems remain central and common to the development situation of all the developing regions. First, there is the persistence of widespread poverty, affecting a very substantial sector of the population, co-existing with a high concentration of wealth and income. Secondly, in most of the developing countries, there has been a decline in the economic growth rate, stressed already, the recovery from which is now most seriously inhibited by stagnation, instability and uncertainty in the external

environment. Thirdly, there is the extreme imbalance in balance-of-payments structures, the growing external indebtedness and the deterioration in the terms of trade. These three factors make up a situation of growing vulnerability and instability for economic growth, seriously depressing prospects for the future, particularly for the non-oil-exporting countries.

52. All the regional commissions have identified the food and agricultural sectors of the regional economies as deserving special treatment during the present Decade if an increase in hunger and malnutrition is to be avoided. Over the 1970s agricultural production grew at an average rate of 2.7 per cent per annum in the developing countries, well below the 4 per cent growth target set for those countries during the Second United Nations Development Decade. As a result, the world food economy is today characterized by sharp and increased imbalances constituting part of the broader structural problems of the world economy. Growing food gaps and widespread hunger in some areas of the world co-exist with exportable surpluses and problems of excess consumption and appalling wastage in others.

53. In several regions of the third world, the food situation has become extremely serious. Food production per capita has declined since 1960 in Africa south of the Sahara and in many countries the increased need for food imports cannot be fully met because of acute foreign exchange problems. Drought has been recurrent over large areas. While a number of countries, particularly in Asia, have made important advances towards food self-sufficiency, over-all trends already indicate a sharp increase in the number of chronically hungry people, which is likely to persist during the 1980s. Although evidence is inadequate, malnutrition in many countries appears to have been rising sharply.

54. Fortunately, there is growing recognition of this situation by an increasing number of developing countries. A renewed priority is being given to the food sector in many countries through the establishment of national food strategies and policies conducive to redressing the situation.

B. Regional strategies 6/

55. The International Development Strategy for the Third United Nations Development Decade (1981-1990) calls for an acceleration of development in the developing countries, within the framework of a new international economic order. The Strategy aims for a 7 per cent average annual rate of growth of gross domestic product (GDP) for the developing countries as a whole during the Decade.

56. In the case of Africa, this target growth rate implies drastic changes in the agricultural and industrial sectors of each individual country. In the agricultural sector great emphasis has to be put on reduction of food losses, increasing production of cereals, livestock and fish, and improvement of productive structures. In the industrial sector, most African countries need to start building their industrial base with appropriate linkages between human resources, natural resources and technology in order to make the growth process locally generated and sustained. The African region also needs greater emphasis

6/ See E/AC.54/L.103 and 104, E/AC.54/L.105 and Corr.1 and E/AC.54/L.106.

on training, improvement of managerial skills and administrative mechanisms, as well as regional co-operation in trade and finance, strengthened through the successful implementation of the current Transport and Communications Decade in Africa.

57. The various structural changes required are analysed in detail in the Lagos Plan of Action 7/ adopted at the second extraordinary session of the Assembly of Heads of State and Government of the Organization of African Unity, held at Lagos on 28 and 29 April 1980. Assuming such changes, the over-all growth for developing Africa is projected at about 7 per cent, with consistent targets for agriculture and manufacturing of about 4 per cent and 9.5 per cent, respectively. Implementation of the Lagos Plan of Action would require large amounts of investment which could come from both domestic and external sources. On the domestic front, the strengthening of internal capabilities through better management and training could bring about substantial reduction in the drain of foreign exchange through invisibles. Also, there would be a need for a massive transfer of resources, taking the form of grants or soft loans and organized in such a way that the grants would particularly benefit the least developed and other low-income countries.

58. Asia is characterized by almost as much diversity as is to be found in the world as a whole. Underlying that diversity is the fact that more than 500 million people live in absolute poverty in Asia, which accounts for about 90 per cent of the world's poor. Three fourths of this staggering number are concentrated in rural areas. Moreover, despite substantial differences in rates of economic growth, the proportion of very poor people tends to be similar in many countries. This shows how weak is the link between economic growth and equity. Partly in response to these problems, the regional development strategy of the Economic and Social Commission for Asia and the Pacific identifies six objectives of development for the 1980s: high growth, fuller employment, distributive equity, fulfilment of basic mass needs, fuller participation in development (specifically including women and youths) and self-reliance.

59. In addition to effective national actions and substantial institutional changes, very large capital inflows will be needed; in South Asia, concessionary flows will still be required to play a predominant role, whereas in East Asia, non-concessionary flows can assume increasing importance. The very diversity of development patterns and stages of growth within the region can provide fuller possibilities for expanding the flow of funds within the region. Great potential also exists for substantially increased interaction between the South Asian countries and the Asian countries in the east and west and even with Africa, in the context of collective self-reliance. China has recently embarked on a new economic strategy to develop and restore balance in its economy, with more emphasis on agricultural production, consumer goods, light engineering and energy. It also envisages an expansion of international trade and co-operation. This gives China a new concern for ensuring the restoration and maintenance of dynamism and openness in the world economy, as well as for greater trade within the Asian region.

60. In the case of Latin America, the Strategy's 7 per cent target for growth of GDP, which would double the product of the region as a whole by the end of the

7/ The Lagos Plan of Action for the Implementation of the Monrovia Strategy for the Economic Development of Africa (A/S-11/14, annex I).

1980s, means an annual economic growth somewhat less than that of the first four years of the 1970s. There are two major differences, however; first, during the earlier period, growth was primarily concentrated in a very small number of countries, whereas faster growth is now required for all countries of the region. Secondly, in view of the deteriorating international circumstances, it is now less likely that the past performance, which was the result of a relatively rapidly growing, open world economy, can be repeated. In the case of some of the oil-exporting countries of the region, however, no external constraints are envisaged in view of the likely improvement in the real price of their exports. Therefore they are likely to accelerate economic growth, and to attempt to strengthen the social orientation of their economies. In the non-oil-exporting countries of the region, an acceleration of economic growth in the framework of the prevailing style of development would require profound changes in the external environment. In such countries there is a need for policies aimed at increased domestic savings, improved income distribution, eradication of the worst aspects of poverty, and economic and social participation of all sectors of society. Furthermore, there is a need for substantial changes in the policies of the developed countries in order to facilitate the growth and diversification of exports from the region while controlling inflationary pressures. There is, moreover, a need for improved international financial mechanisms in order to reduce the dependence of the region on private capital markets. In the longer term, sustained economic growth both in oil-exporting and oil-importing countries will require a reformulation of development strategies based on a realistic assessment of technological opportunities, resource potential and emerging new markets. Such strategies will need to consider the feasibility and desirability of alternative development styles - less imitative of industrial country patterns and more compatible with meeting the social needs of the majority of the population, as well as preserving and enhancing society's resource base and the environment.

61. In West Asia, and in contrast to the other developing regions, the shortage of financial capital is not generally a major constraint, although it remains such for some countries. The great diversity within the region, already large in 1970, has grown considerably since. Wealth and poverty coexist in many countries, raising the need for development strategies aimed at the creation of a more diversified and productive physical and human infrastructure. Furthermore, those oil-producing countries with accumulated financial surpluses will continue to be confronted with basic decisions concerning expenditure and consumption patterns - a problem which goes beyond economic growth to the broader questions of development styles. Those countries also need to find secure and sound opportunities for their investible funds. With regard to the latter, increased diversification of their investments within a framework of regional and interregional co-operation is an attractive alternative.

Chapter III

SOUTH-SOUTH ECONOMIC CO-OPERATION

62. It is imperative that the North-South dialogue on the shaping of the new international economic order should be pushed out of its present stalemate and be given fresh impetus; for, as we have seen above, global economic co-operation is now more necessary than ever. Each part of the world requires, for its prosperity, dynamic economic growth and structural change in all the other parts, within a framework of more equal opportunities for all countries.

63. Given the slow growth and increasingly inward-looking policies of many of the developed countries, however, the "trickle-down effect" of growth in the North on prosperity in the South has in recent years been considerably weakened. It is therefore necessary that the countries of the South should increasingly look more to economic relations with each other in seeking a new engine of growth. We therefore strongly urge that, without abandoning the objective of creating a more effective and just global framework for development which provides equal opportunity for all countries, the South should now vigorously initiate the process of strengthening South-South interdependence.

64. The broad lines of the concept of "collective self-reliance" have been embodied in the International Development Strategy for the Third United Nations Development Decade (General Assembly resolution 35/56, para. 134) which, inter alia, reaffirms the commitment of developing countries to the effective implementation of the Arusha Programme for Collective Self-Reliance and Framework for Negotiations 8/ adopted by the Group of 77 at Arusha, United Republic of Tanzania, in February 1979. Essentially this calls for greatly strengthening economic and technical co-operation among developing countries in order to build up a less dependent pattern of development in the third world - and improve their position in the system of international economic relations.

65. Such efforts at greater South-South co-operation can obviously take place at three levels - subregional, regional and interregional. The subregional level is of particular importance in that in several instances it can provide the base on which regional and interregional co-operation can be built.

66. The very diversity of endowments with respect to human, natural and financial resources of the third world countries widens the scope for mutually beneficial economic co-operation among them and provides numerous opportunities for co-operative action. The other side of this diversity of endowment and level of economic development cannot be ignored, however. Just as in North-South relations special opportunities for development must be provided for the weaker countries of the South, so must South-South economic co-operation be pursued within a deliberate framework which creates special opportunities for the relatively less developed countries of the South.

8/ See TD/236. For the printed text, see Proceedings of the United Nations Conference on Trade and Development, Fifth Session, vol. I, Report and Annexes (United Nations publication, Sales No. E.79.II.D.14), annex VI.

67. It would also be unwise to overlook the serious practical difficulties experienced in most efforts at economic co-operation among developing countries - difficulties which could be intensified in the closest form of economic co-operation - namely, subregional economic integration. Some of these difficulties are essentially political and psychological, having to do with perceptions of unequal incidence of costs and benefits. This calls for co-operation in many areas in order to increase the opportunities for "trade-offs" between the countries engaged in co-operation, but it also gives rise to the need for care in designing institutions and procedures for such co-operation. Objectives and targets must be set realistically and a long view always taken. Not least, adequate detailed technical preparation must always provide the basis for negotiating both general and specific co-operation agreements among developing countries.

68. If resolute but realistic steps are initiated now to achieve a much higher degree of economic co-operation among developing countries, it is highly probable that, for most third world countries by the end of this century, South-South economic relations can become as quantitatively and qualitatively important an engine of growth as traditional North-South relations. This would make for a more balanced distribution of economic power within the international economy and serve greatly to reduce the asymmetry of the inherited pattern of dominance in the North and dependence in the South. Stronger economic co-operation among the countries of the South and its positive impact on development will also strengthen the bargaining power of the South in its negotiations with the North for a new and more just international economic order. In addition a healthier economic and political climate and even conceivably a reduction of world tensions might well result from this.

69. It seems to us fully realistic to expect that progress in South-South economic co-operation can be achieved in the short term and the medium term by joint actions and efforts in the following five areas:

- (a) Financial co-operation;
- (b) Co-operation in energy;
- (c) Co-operation in food and rural development;
- (d) Co-operation in technology;
- (e) Co-operation in trade, industrial development and infrastructure.

A. Financial co-operation

70. As clearly emphasized in the International Development Strategy, developing countries will continue to bear the main responsibility for financing their development and will need to adopt vigorous measures for a fuller mobilization of their domestic financial resources. Direct financial transfers from surplus to deficit developing countries offer great promise in this regard, more than has been achieved in the past. Hitherto the bulk of such transfers from the capital-surplus, oil-exporting developing countries have been effected through multilateral financial institutions of which the industrial countries are members. Recently, however, there are encouraging indications that more direct transfers are taking place. In view of the serious problems facing them and the manifold advantages

of financial co-operation among developing countries, it becomes imperative that vigorous efforts should be made to stimulate and sustain increasing direct recycling to deficit developing countries. Three possibilities deserve serious consideration.

71. First, with appropriate arrangements and safeguards, surplus developing countries can invest in, grant loans to, or establish soft-loan windows in regional and subregional development banks.

72. Secondly, direct investment from and to developing countries could be increased. As mentioned in our 1980 report, developing countries - petroleum-exporting countries and other developing countries with surpluses, as well as other developing countries needing the capital - should together work out modalities whereby equity investment from each other could be made more acceptable to both sides than similar investments from established or long-entrenched transnationals.

73. Thirdly, direct recycling can be stimulated and sustained by creating a Third World Development Bank. The establishment of the Fund for International Development of the Organization of the Petroleum Exporting Countries (OPEC) has been a positive step in the right direction. It is now desirable to enhance the role of this Fund on the lines of the proposals already advanced by several OPEC members. This objective could be attained by transforming the OPEC Fund into a full-fledged development bank. It would, of course, have to be provided with a fairly large equity capital base. More important is the possibility of further expanding its financial resources by accepting deposits and issuing bonds. This would enable the new bank to combine concessionary with hard lending and even to finance acquisition of equity shares in third world multilateral enterprises. While such a bank would lend for the usual economic and social infrastructure projects, it is hoped that it would give greater weight to financing food, energy and industrial projects and to programme lending than the existing multilateral development banks.

74. Finally, while the aid programmes of the high-income members of OPEC are already generous by comparative standards as far as quantum is concerned, there is scope for improvement in its quality both in regard to its concessional character and in its distribution in favour of the low-income developing countries irrespective of their racial, religious or geographical affiliations.

75. Within the existing framework of international capital markets, certain developments can and should be encouraged to facilitate the flows of non-concessional capital directly from the surplus oil-exporting as well as non-oil-exporting countries to the deficit developing countries. The growth of a bond market in the capital surplus oil-exporting countries is one such development that should be encouraged. Further broadening of the yen and mark financial markets would improve access to the long-term capital markets of the developed countries, particularly for the better-off developing countries, and would help to stabilize the international capital markets by reducing overdependence on the volatile United States dollar market.

76. As a long-term measure, steps should be taken to encourage the process of financial intermediation to be undertaken by developing countries by decentralizing the capital markets and encouraging the growth of other financial centres in the

developing countries. The development and growth of financial centres such as Bahrain, Hong Kong and Singapore have already contributed towards better access to the international capital markets and accelerated direct capital flows to the developing countries in the respective regions. It is important that such developments should be carried forward.

B. Co-operation in energy

77. In the short term and the medium term, the most effective form of regional and subregional co-operation in energy between oil-exporting and oil-importing developing countries would be arrangements under which the former would make soft loans to the latter to enable them to meet, in whole or in part, the incremental cost of oil imports. Two examples of such arrangements in Latin America and the Caribbean can be cited.

78. Trinidad and Tobago is now operating a scheme under which the incremental cost since January 1979 of its oil, fertilizer and asphalt imported by its partner countries in the Caribbean Community (CARICOM) - amounting to about 50 per cent of the present market price - is payable not in cash, but over a period of 15 years, with a three-year grace period, and at an interest rate of 2 per cent for the relatively less developed countries of CARICOM and 3 per cent for the relatively more developed countries, interest being capitalized for the first three years of the loan. Debt service could be effected in exports of commodities from the borrowing countries to the lending country.

79. Somewhat similar arrangements have been worked out by other countries, for instance, Mexico and Venezuela, under which 30 per cent of the market price of oil is made available as a loan to Central American countries and some countries in the Caribbean.

80. An alternative arrangement to meet the needs of seriously affected countries in any given region or subregion would be a rebate, taking the form of a grant from the exporting to the importing country equivalent to all or part of the incremental cost of oil imported for domestic consumption over a certain reference period. A condition of the arrangement should be that the country or countries benefiting should establish domestic prices of oil at the world parities to discourage wasteful use of the commodity. 9/

81. Naturally, any schemes of these two types should take into account the very large part played by multinationals in the oil trade and their considerable capacity to respond to market forces even against governmental dictates.

82. Other areas of regional and subregional co-operation in energy could include:

(a) A guarantee by the oil exporters of supply to oil-importing developing countries; 10/

9/ Arrangements broadly along these lines have also been made by Middle Eastern and African oil-producers on a somewhat informal basis.

10/ Such arrangements have been made among some ASEAN countries.

(b) Further joint development of hydroelectric and other renewable energy resources to serve more than one country either as part of river basin development schemes or otherwise;

(c) The interconnexion of national electric power grids;

(d) Production by the oil-exporting countries of fertilizer and petrochemicals for other markets in the region or subregion or in developing countries generally;

(e) Joint programmes of research, field testing and dissemination of information on renewable sources of energy and on conservation of conventional forms of energy;

(f) Technical assistance from those countries with the necessary experience and expertise to others in the negotiation of exploration and production contracts with international oil companies, which could be done at either the interregional, regional or subregional level;

(g) Establishment of regional energy commissions and subregional energy committees to co-ordinate activities, to give assistance at the national level in energy conservation, accounting and planning and to supervise inventories.

83. Regional co-operation in energy matters needs to go beyond the energy sector itself. Inasmuch as there is an energy facet to every human activity, most of the variables in the energy-development nexus lie outside the energy sector proper. For this reason, the long-term response to energy scarcity lies in the search for less energy-intensive, ecologically sustainable development strategies. A whole range of new studies is needed to evaluate alternative energy systems - in terms not only of the economic but also of the ecological and social criteria common to each region. It is impossible to manage the trade-offs between food, animal feed, energy and materials without comprehensive land-use planning on the local as well as on the national, subregional and regional scale. Although this has implications for both developing and developed countries, special regional and subregional initiatives in research, development and promotion of new approaches are needed if they are to be adequately related to the particular circumstances, resource endowments and priority needs of developing countries.

84. In particular, in-depth studies are required in areas such as food production and the associated distribution systems, industrial production systems, the energy costs of operating energy production and distribution systems, as well as the energy profiles of time use and leisure activities - all in the actual circumstances of the developing countries concerned. Rising energy prices have already had negative effects on the food situation as oil-based inputs have become more expensive. In some countries, crop land is being shifted out of food production into the production of biomass energy. Regional co-operation on policy studies of such investments would be very valuable - together with studies of appropriate policy instruments for low-income countries. In addition, regional co-operation is needed in the elimination of wasteful uses of energy by introducing greater efficiency of existing energy systems through better management and the use of software, including rational scheduling of activities at the factory, town and country levels; in restructuring production systems towards less energy-intensive processes; in restructuring consumption durables by redesigning vehicles, electrical appliances, etc., and by designing less energy-intensive building methods and building materials; and by greater discipline and education.

C. Co-operation in food and rural development

85. As emphasized earlier, food shortage and malnutrition now rank among the most urgent development problems of the third world. Although this is increasingly recognized, the potential of South-South co-operation in this vital area has so far been relatively little emphasized. The Committee believes that much could be done jointly at the regional or subregional level to strengthen national action to promote more balanced agricultural and rural development.

86. The Committee would like to stress the need to establish a balance between energy programmes and food programmes. Both sectors are of critical importance for developing countries and both will require large-scale investment resources for their development. Past experience indicates that the drive for industrialization has often been met by a neglect of agriculture and food production. This will not be adequate for the future. Whatever efforts are made for energy development should not be made at the cost of adequate diets for the population. The competition between energy and food is not only for limited investment resources; it also raises allocation problems of energy resources linked with agricultural technology, for example, mechanization, fertilizer and other chemical products. Land use for the production of food commodities versus fuel commodities will require careful planning, as will the final use of agricultural products for food or for fuel.

87. In a number of specific ways, closer collaboration among the developing countries could strengthen priorities for agricultural and rural development.

(a) In the past, most of the investments undertaken by developing countries with balance-of-payments surpluses have been channelled to the developed countries. There is an obvious opportunity for capital-surplus developing countries to invest in the rural development programmes of other third world countries, perhaps linked to programmes for the export of agricultural produce to the food-importing countries providing the finance. The deficit third world countries should endeavour to create conditions in their own countries that would provide adequate security and guarantees for investments.

(b) In order to develop greater technological capabilities better adapted to the social and economic environment of third world countries and to build a pool of high-level manpower, there is need for many more regional research and training activities and for greater exchange of information thereon. These activities should not only contribute to more relevant training in the regions but also stimulate more research on approaches and technologies adapted to the social and economic environment of their regions. They could also assist in adapting foreign technology to local needs. Low cost pre-harvest and post-harvest technologies, technologies relevant to irrigation, research on seeds and equipment related to the crops grown by the smaller and poorer farmers and simple machinery and equipment for agro-industry and agro-processing suitable for landless and near-landless rural people are particularly important areas on which work is needed.

(c) Commodity agreements for the main agricultural crops are needed. In most cases, these will need to be jointly negotiated internationally by producer and consumer countries; but often weakness on the side of the developing countries has delayed the achievement of such agreements, or made them less satisfactory than they might have been from the viewpoint of the third world. Here therefore

is an area where greater regional co-operation to prepare the ground more thoroughly for participation in commodity agreements could be important.

(d) Food storage has an important part to play in strengthening national and regional food security, not merely by directly contributing to the build-up of food stocks but by helping to stabilize food prices, thereby better rewarding and protecting the poorer farmer, who is often hard hit by food price fluctuations. Regional and subregional agreements on food stocks and storage have a major part to play in achieving food security.

88. The scope for South-South co-operation in food and rural development can be broadened through the intensification of developing countries' efforts to build food security and to improve the nutritional status of their populations. This will require that developing countries devote more resources to rural sectors and to agriculture. In particular, they need to pay more attention to investment in rural economic infrastructure, such as the construction of dams, canals and roads and the creation and efficient organization of supporting services such as agricultural extension, rural health centres, educational and research institutions. They also need to give more attention to the increase of agricultural output and rural incomes of small farmers, marginal farmers and landless labourers. Much evidence bears out the high level of efficiency with which these groups - including women - use the limited resources available to them. Approaches and policies which make more resources available to these groups and give them greater access to markets and services would both increase output and help alleviate poverty and malnutrition.

D. Co-operation in technology

89. More generally, third world countries should give special attention to pooling their technological capabilities in order to accelerate the building up of a stronger technological base for upgrading traditional domestic technologies, for developing more appropriate technologies which make fuller effective use of their local resources and for screening and adapting imported technologies.

90. South-South co-operation in technology can also be promoted by more technical co-operation among developing countries in both the public and private sectors of their economies. One important aspect of such co-operation is the greater use by developing countries of each other's professionals, consultancy firms, construction contractors and skilled workers whenever this is feasible. It should be emphasized that such technical co-operation can take place at the subregional, regional and interregional levels.

E. Co-operation in trade, industrial development and infrastructure

91. Many developing countries expect from export growth a significant contribution to their internal development. For this, much will depend on whether the developed countries manage to liberalize their markets for products from developing countries and to make market access more secure. Combating a newly emerging protectionism in the industrialized countries is a pre-condition for overcoming the present stalemate in world economic relations.

92. Trade promotion is a first-rank matter not only of North-South action but also of co-operation among developing countries. Recent experience is rather promising. During the 1970s, trade among developing countries increased significantly; the share of such trade in goods other than fuels expanded from one fifth to more than one fourth of developing countries' total trade. This was the consequence of faster growth in both intra-regional trade and interregional trade among developing countries. Trade in manufactured products played a particular role in this process. These trends are likely to continue, but need to be supported by specific policy measures.

93. Developing countries have also become an important market for exports of manufactures from developed countries, accounting for nearly two fifths of their total exports of those products in recent years. Policy measures for higher rates of growth of the developing countries, including measures for increased economic co-operation among themselves, can therefore be an important factor in helping to sustain the growth of the world economy.

94. On the regional and subregional levels, existing mutual preference schemes have gained importance for actual trade. This applies especially for Central and South America, the Caribbean and West Africa. In East Asia, new preference schemes were implemented. Nevertheless, there remains wide scope, still largely unexploited, for trade expansion and co-operation among the developing countries. At a time when the impulses which come from the industrialized world are highly uncertain, collective self-reliance among developing countries is more urgent than ever, especially as a means of maintaining economic dynamism and developing a mutually beneficial division of labour among themselves.

95. Developing-country-wide tariff and other trade preferential arrangements could be an important element in mobilizing these dynamic forces, thereby contributing to trade expansion among developing countries. Such efforts deserve the support of the international community as a whole.

96. The removal of trade barriers is not all. Close economic co-operation - including subregional integration - also depends on co-operation in production. It also depends on the existence of an effective infrastructure, the creation of which is both a priority for, and a test of, regional co-operation. The transport and communications system is in poor condition in many parts of the developing world. Complementary factors are lacking too. Trade credit payments arrangements and joint reserve funds need to be established on a regional and subregional basis. They could complement, and will in many cases be better geared to regional development needs than, the facilities of the International Monetary Fund. Industrial agreements, covering joint investment projects, would also help in many cases to bring about regional and subregional integration.

97. Co-operation and joint efforts are essential, particularly but not exclusively in the area of subregional integration. First, it is necessary in developing countries to create new productive capacity before trade among those countries can be significantly expanded. Secondly, economies of large scale and specialization in the industrial sector have to be deliberately achieved through joint and co-ordinated action in production. Thirdly, integration or a high level of economic co-operation can be achieved by deliberate action to pool human, natural and financial resources of different countries.

98. A fundamental instrument in all these cases is the multilateral enterprise. This could be a business organization that is jointly owned by several developing countries - i.e., Governments, private sector or both - which would undertake productive and trade activities. It would operate with the privileges of a national enterprise in the markets of the countries that participate in its equity capital; raise funds mainly from their financial markets; employ its personnel mainly from among those countries' citizens; use to the optimum inputs from the local resources available; and conform to the development objectives of the countries concerned. Developing countries should not expect that close economic co-operation or integration among themselves can be achieved merely by signing formal treaties. They have to create the business actors that can implement their objectives and, by so doing, gain greater bargaining power vis-à-vis transnational corporations of developed countries.

99. Co-operation in production for export of manufactures to the developed market economies also has a role to play in the industrial development of the semi-industrialized developing countries. Joint identification of new export-oriented industries in the light of detailed market investigation and exchange of information on industrial investment plans, whether financed by local or foreign entrepreneurs, would facilitate structural changes and the consequent movement towards more sophisticated industries in the semi-industrialized developing countries and the redeployment of simpler industries to the less industrially advanced developing countries.

100. Support for the development of transport and communications is one specific area where major action is needed, especially in Africa, south of the Sahara and South Asia, where the road and transport systems were designed primarily for the extraction of raw materials and not for autonomous development of these regions. Existing road systems need to be integrated in order to provide the necessary infrastructure for greater production and larger markets.

101. There are isolated industrial plants which are operated below full capacity because of the lack of markets. Markets are lacking both because of high transport costs entailed by an inappropriate road system and by the low productivity of the regions. An effective road and communications system would contribute significantly towards the solution of these problems, and this calls for subregional and regional planning and co-operation.

102. African Governments, with the help of bilateral and other donors, have already initiated a programme of telecommunications. The General Assembly in 1977 proclaimed the Transport and Communications Decade in Africa (resolution 32/160), and called for the mobilization of international resources over the period 1977-1988 to assist in the development of African economic infrastructure. The major problem is one of financing. Most of the countries in the region are small and cannot raise the necessary resources for the construction of long-lived infrastructure that will yield returns only over a long period of time. External resources are needed. These could in part be supplied by the proposed Third World Development Bank (see para. 73 above) but there is scope for co-financing with bilateral and multilateral aid agencies of the developed countries since the latter could make use of excess capacity in certain industries in the North. Support from the North would then become an instrument for stimulating demand in the industrial countries as well as providing the basis for structural change and development in the developing countries. For this, planning and co-operation on a subregional, regional and global scale would be needed.

Chapter IV

IDENTIFICATION OF THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES

103. In General Assembly resolutions 34/121, 34/123, 34/124, 34/126, 34/131 and 34/132, of 14 December 1979, and in Economic and Social Council decision 1980/161 of 24 July 1980, the Committee for Development Planning was requested to consider the inclusion of Djibouti, Equatorial Guinea, Guinea-Bissau, Sao Tome and Principe, Seychelles, Tonga, and certain newly independent developing countries in the list of the least developed among the developing countries. The Committee was asked to carry out this exercise on the basis of the existing criteria and the most recent data relating to those criteria and, according to General Assembly resolution 35/106 of 5 December 1980, without any prejudice to any future over-all review of the list of the least developed countries.

104. On the basis of the principles established by the Committee in previous reviews for the updating of the criteria, the Secretariat provided the Committee with the relevant information relating to the criteria and the most recent available data on per capita GDP, share of manufacturing output in total GDP and the rate of adult literacy for the countries concerned (E/AC.54/L.107). The information provided by the Secretariat was received from various organizations of the United Nations system and from some Member Governments. From this information the Committee has concluded that only Guinea-Bissau meets the criteria required for identification as a least developed country. The Committee, therefore, recommends that Guinea-Bissau should be added to the list.

105. The Committee wants to underline, as it has done in earlier reviews, the need for using the category of the least developed countries in an appropriate and flexible manner in matters relating to the terms and allocation of international assistance in different fields.

106. In the present exercise, the Committee applied the existing criteria, updated for changes in prices and real growth of per capita GDP of the world market economies, as it was asked to do. The experience obtained on this occasion and in past years in reviewing the list of the least developed countries has led the Committee to the view that fresh appraisal of the criteria used for the identification of the least developed countries has become highly desirable and that the possibility of revising the present criteria deserves to be explored at an appropriate time.

107. The broader question of the usefulness of the various country groupings deserves more attention. The United Nations system has recognized different groupings of disadvantaged developing countries, but several of them overlap - least developed countries, developing island economies, land-locked, most seriously affected countries. The possibility of rethinking and tidying up the various groupings should therefore be explored.

108. The United Nations Conference on the Least Developed Countries will be held in September 1981. After this, and in the light of its findings, the Committee hopes that more fundamental consideration of these questions can be undertaken at an appropriate time in the course of the first half of the Third United Nations Development Decade. If asked, the Committee would be ready to assist in such an exercise.

Chapter V

FUTURE WORK

109. In its future work the Committee intends to focus on particular aspects of the world economic situation and prospects as well as critical development problems in the North-South agenda hampering the effective implementation of the International Development Strategy for the Third United Nations Development Decade. As usual the Committee stands ready to examine other development issues that the General Assembly and the Economic and Social Council consider to be of priority concern.

110. In particular, at its eighteenth session, to be held in 1982, the Committee intends to focus its attention on critical international monetary and financial issues, including those relating to developments in the world energy situation. The Committee will consider these issues in the light of the world economic situation and prospects, particularly in regard to world inflation, growth and employment; trade, debt and payments; and developments in such areas of major concern for the 1980s as food and energy.

111. In addition, at its next session, the Committee intends to identify other important issues relating to development patterns and styles, including training and effective use of human resources, for detailed consideration at its 1983 session.

112. Within the resources available to it, the Committee will convene a working group on monetary and financial issues in the second half of 1981 in order to facilitate the tasks to be undertaken by the Committee at its eighteenth session. The working group will consist of 10 members appointed by the Bureau. The group, which will meet in New York for a week, may include in addition one or two co-opted members so as to enable the Committee to benefit from the specialized knowledge of certain persons on selected topics. In addition to this working group, the Committee proposes to convene early in 1982 a two-day meeting of the Bureau as well as the officers of the working group in order to prepare a detailed annotated agenda for the 1982 session of the Committee and an outline of possible elements for the report of the Committee on that session.

113. The Committee requested the Secretariat to prepare, in consultation with the Bureau, an agenda for the meeting of the working group and to provide the necessary documentation, relying wherever possible on work already under way in the relevant organizations, particularly the United Nations Conference on Trade and Development (UNCTAD), the World Bank and the International Monetary Fund. The Committee also requested the Secretariat to submit at its eighteenth session a note on the world economic and social situation and prospects, drawing when possible on the work of Project LINK 11/ and further to make available reports of the ACC Task Force on Long-term Development Objectives pertinent to the agenda of the 1982 session.

11/ Project LINK is an international undertaking bringing together econometricians from developed and developing countries, as well as from international organizations. The Project, which is directed by Professor Lawrence Klein, prepares studies of the world economy, including short-term forecasts and medium-term projections.

Annex

LIST OF DOCUMENTS

| <u>Document number</u> | <u>Title</u> |
|---|---|
| <u>A. Documents of the Committee</u> | |
| E/AC.54/24 | Provisional agenda for the seventeenth session |
| E/AC.54/L.102 and Add.1 | Regional development problems, priorities and policy needs: paper prepared by the Secretariat |
| E/AC.54/L.103 | The African region: some key development issues in the context of the African Strategy and Plan of Action: paper prepared by the secretariat of the Economic Commission for Africa |
| E/AC.54/L.104 | Development problems and prospects of the ECWA region in the 1980s: paper prepared by the secretariat of the Economic Commission for Western Asia |
| E/AC.54/L.105* and Corr.1 | Development priorities and policy needs of the ESCAP region: paper prepared by the secretariat of the Economic and Social Commission for Asia and the Pacific |
| E/AC.54/L.106 | Latin American development: central problems, prospects and guidelines for the 1980s: paper prepared by the secretariat of the Economic Commission for Latin America |
| E/AC.54/L.107 | Identification of the least developed among the developing countries: note by the Secretariat |
| <u>B. Other texts</u> | |
| <u>(a) General Assembly resolutions</u> | |
| 34/121 | Assistance to Guinea-Bissau |
| 34/123 | Assistance for the reconstruction, rehabilitation and development for Equatorial Guinea |
| 34/124 | Assistance to Djibouti |
| 34/126 | Assistance to Seychelles |
| 34/131 | Assistance to Sao Tome and Principe |
| 34/132 | Assistance to Tonga |
| 35/106 | Review of the economic situation of Djibouti, Equatorial Guinea, Guinea-Bissau, Sao Tome and Principe, Seychelles, Tonga and newly independent developing countries with a view to their inclusion in the list of the least developed countries |

Document number

Title

(b) Economic and Social Council decision

1980/161 Review of the economic situation in Djibouti, Equatorial Guinea, Guinea-Bissau, Sao Tome and Principe, Seychelles and Tonga with a view to the inclusion of those countries in the list of the least developed countries

(c) General Assembly documents

A/35/297-S/14007 Assistance to Mozambique: report of the Secretary-General
A/35/333 Assistance to Sao Tome and Principe: report of the Secretary-General
A/35/343 Assistance to Guinea-Bissau: report of the Secretary-General
A/35/393 Assistance to Seychelles: report of the Secretary-General
A/35/415 Assistance to Djibouti: report of the Secretary-General
A/35/445 Assistance to Dominica: report of the Secretary-General
 and Corr.1
A/35/447 Assistance to Equatorial Guinea: report of the Secretary-General
 and Add.1
A/35/490 Assistance to Tonga: report of the Secretary-General
A/35/499 Assistance to Antigua, St. Kitts-Nevis-Anguilla, Saint Lucia and Saint Vincent: report of the Secretary-General
