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ASSESSMENT OF THE PROGRESS MADE IN THE ESTABLISHMENT OF THE  
NEW INTERNATIONAL ECONOMIC ORDER AND APPROPRIATE ACTION FOR  
THE PROMOTION OF THE DEVELOPMENT OF DEVELOPING COUNTRIES  
AND INTERNATIONAL ECONOMIC CO-OPERATION

Note verbale dated 25 August 1980 from the Permanent Mission of  
Yugoslavia to the United Nations addressed to the Secretary-  
General

The Permanent Mission of the Socialist Federal Republic of Yugoslavia to the United Nations presents its compliments to the Secretary-General of the United Nations and has the honour to request that the enclosed Final Document of the Second World Scientific Meeting on International Financing of Economic Development be made available to all States Members of the United Nations during the eleventh special session of the General Assembly.

F I N A L D O C U M E N T

FOR THE SECOND WORLD SCIENTIFIC BANKING MEETING ON INTERNATIONAL  
FINANCING OF ECONOMIC DEVELOPMENT  
(Dubrovnik, May 26-31, 1980)

The Second World Scientific Banking Meeting was held in Dubrovnik, from May 26 to 31, 1980. Approximately 300 scholars, bankers and financial experts from 46 countries discussed the main theme of the Meeting - "The International Financing of Economic Development" in 72 papers and over 90 discussion contributions. This important and topical subject matter was discussed within the following four principal thematic sections: International Financing of Economic Development in the Eighties, Methods and Mechanisms of International Financing of Economic Development, The International Monetary System and International Financing of Economic Development, and International Banking Cooperation in International Financing of Economic Development.

A Bankers' Round Table was held within the Programme of the Meeting, where a number of issues raised in the papers and discussion contributions was the subject of discussion by financial experts, who endeavoured to cover this subject from the practical aspect as well.

The Meeting was organized by the Administration for International Scientific, Educational, Cultural and Technical Cooperation of the Socialist Republic of Serbia with the support of the Federal Executive Council, i.e. the Yugoslav Government, Yugoslav banks and the Institute for International Politics and Economics in Beograd. The preparations and realization of the Meeting were conducted by the specially established bodies: the International Scientific Council and the Programme Council.

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It was not the intention of the Meeting to reach a general consensus on major issues but to advance ideas which can serve as catalyst for change and for serious consideration by policy makers. Therefore what follows in this document is a review of ideas contained in individual papers and put forward by individual participants. Some of the ideas and propositions were shared by all the participants in the Meeting.

The Meeting took place at the turn of a turbulent decade overshadowed by a continuing world economic crisis. The extraordinary significance of the Meeting also lay in its being held on the eve of the forthcoming Special Session of the United Nations General Assembly convened to adopt an International Development Strategy for the eighties and to launch a New Round of Global Negotiations.

The crisis besetting the world economy is not of a cyclical but of a structural character and is rooted in deeply entrenched material and institutional factors. Profligate consumption of essential raw materials and energy has led to scarcities of these materials. Massive investment in armaments expenditures where value added per unit of labour is relatively less than that in other sectors, has fed the flames of the raging inflation. It is necessary to start with structural changes in developed economies in order to adjust to those conditions and to cope successfully both with the problems of developed as well as of the developing countries.

The seventies have also been a period of great monetary instability characterized by fluctuating exchange rates and serious balance of payments problems for most of the countries in the world. For the first time in the post-war years, world trade ceased to be an engine of growth as it had been in the previous two decades and experienced a declining rate of expansion.

Due to the external vulnerability of their economies, the developing countries have been the hardest hit by the present world economic crisis. Their position has continued to worsen and the gap between the developed and developing countries has increased.

Part of the reason for the persistence and the deepening of the crisis is the very manner in which its resolution is being sought. Short term and ad hoc measures have been resorted to instead of efforts to bring about structural adjustments in response to forces making for change.

This structural crisis was manifested both at the national level as well as at the level of international economic relations. The crisis cannot be overcome without harnessing the immense growth potentials of the developing countries, with their abundance of manpower and raw materials and their low investment potential. This calls for far-reaching changes in the international monetary, trade and financial systems.

Inequality, dependence and exploitation inherent in the present international economic order cannot be removed without concerted action by all members of the international community. The cooperation of all countries is necessary, irrespective of their level of economic development or socio-economic system.

Interdependence and international solidarity should guide the search for solutions to the present crisis of the world economy and international economic relations. Optimal solutions to these problems can be attained only on a global and universal basis along the lines of the New International Economic Order. However, as needed cooperation from developed countries is not forthcoming in many areas, in view of the urgency of the problems, concerted efforts should be made to deal with them at the South-South level. To this end, it is essential to organize contacts and consultations at professional and scientific levels and to set up as soon as possible a mechanism to facilitate evolution of proposals for institutional adaptation and innovation to promote new forms of cooperation among developing countries in various social and economic sectors.

At the same time it is necessary to provide full freedom to every country in designing and implementing domestic economic policies according to their

respective development strategies. Each country, according to its individual socio-economic system, should mobilize all possible internal human and material resources in order to stimulate economic development. It is also important to create the most favourable conditions for the further development of collective self-reliance among the developing countries.

### International Trade System

Exports of manufactures from developing to developed countries still account for only a small percentage of the total such imports by the latter countries and an insignificant proportion of their total consumption. Empirical studies have shown that the job displacement effects of increased imports are typically quite small relative to those caused by other factors. In fact, it has further been shown that the resulting transactions have employment creating effects in the economies of the developed countries as a whole. These countries should therefore progressively reduce their tariff and non-tariff barriers and allow the consequent structural adjustments to proceed unhindered.

In order to create more favourable conditions for the participation of the developing countries in the economic activities of the more developed parts of the world, it is of utmost importance to remove various barriers of a protectionist nature. Modern protectionism of the developed economies is slowing down the process of their own structural changes and diminishing the possibilities for developing countries to improve their economic performance via exports to the markets of the developed countries. Therefore it is necessary to implement and further develop preferential treatment of the developing countries in the international trading system.

In the interim period, it is essential to adopt an improved international framework of rights and obligations and set up healthy conventions to constrain the harmful effects of restrictive measures and to restrict their operation to emergency

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periods and situations. In particular, an international safeguard system must be speedily devised and steps taken to promote the adoption of adjustment measures particularly by advanced economies. It is also important that the industrialized countries cooperate with developing countries in strengthening their export capabilities.

### International Monetary System

For the international monetary system to function satisfactorily in the 80s a thorough-going reform must be carried out so that it supports the process of creating a new international division of labour. The new world monetary system should be based on the criteria of equality of all nations, so that the developing countries would be able to increase their share in both world production and trade.

The experience of the 70s has confirmed that it is not in the interest of the functioning of the world economy to allow the expansion of international reserves to take place in the form of national currencies. Every effort should therefore be made to strengthen the role of the SDRs as an international reserve currency. For this purpose a more active strategy should be adopted for creating SDRs in the 80s in order to increase the position of SDRs in the total reserve structure with the long-term aim to make the SDRs the principle reserve asset of the system. It is important that the IMF should abandon the obsolete concept of SDRs as "residual components" in total reserve increases. Adequate criteria for determination of SDRs increases in the 80s would be urgently needed. One of the main ways to expand the role of SDRs would be to initiate their use in business transactions at the international level.

A new distribution formula for allocating SDRs should be devised according to which the developing countries would receive more SDR allocations than would correspond to their present share in world production and trade. The link between SDRs creation and development financing in developing countries would tend to reduce the global imbalance between low level of capacity utilization in the North and insufficient growth of productive capacities in the South due to lack of capital.

The introduction of the substitution account is not of primary importance in the development of the international monetary system in the 80s from the point of view of the proper functioning of the world economy in a growth context. The substitution account would contribute to a favourable change in the reserve composition, but the interests of developing countries should also be respected, particularly because of the reduced liquidity of international financial markets and possible effect on new issues of SDRs.

In anticipation of strong balance-of-payments pressures in the 80s, it is increasingly important to find an optimal balance between financing and adjustment policies. The intention of the IMF to play a greater role in the recycling process in the next period - through quota increases and new borrowings with potential creditors - was positively assessed. In view of the external causes and structural nature of the largest part of developing countries' payments deficits, financial support of the IMF should have minimum conditionality and longer maturities. Its adjustment policies should not rest only on the demand and exchange rate management but also on introducing measures to promote supply and investment so as to preserve the continuation of the development process. For the low income developing countries, interest rate subsidies for the Fund's facilities should be provided.

Regional monetary arrangements are expected to increase in the 80s, especially in developing countries, in view of the process of self-reliance on the regional level.

The following views were particularly emphasized at the Meeting:

a) We should dispel widespread misunderstandings about the real causes of the 1971 collapse of the dollar and of the international monetary system anchored on it. It was pointed out, in particular, that these can not be blamed on the explosion of oil prices, two years later, at the end of 1973, which was instead, in part at least, a consequence of a world inflation in full swing well before then and made possible by the doubling of world

reserves from the end of 1969 to the end of 1972. Nor can this world inflation be blamed on excessive monetary financing of the developing countries, well over 95% of which financed the developed countries, particularly the United States.

b) There should be urged a revival of the fundamental reforms nearly agreed to in the final report of the Committee of 20, in June 1979, after ten years and close, incessant negotiations among all countries, but which was bizarrely abdicated by the negotiations in Jamaica and in the second IMF Amendment.

c) The best hope for such a revival at present lies in the development of outward looking regional agreements among like-minded countries and mutual cooperation between whichever such regional groups and countries are ready to participate in the reconstruction of a world monetary order, fair and acceptable to all, rather than wait for a unanimous agreement which unfortunately appears still very distant at the moment. The new European Monetary System, centered on the ECU, could play a crucial role in this respect and influence the United States.

d) One could conclude that such an approach would also permit a strengthening, democratization and enlargement of the IMF through a more decentralized structure, leaving to regional groups the responsibilities which they are better able to discharge effectively themselves and in accordance with their own, diverse goals, needs and possibilities, particularly in the case of the centrally planned economies to which IMF rules derived from the capitalistic world may be inapplicable and inappropriate.

### International Financial System

The financing of economic development of the developing countries has acquired a new dimension in the context of the present economic crisis. It is now widely recognized that transfer of resources from developed to developing countries is a direct and effective instrument for extricating the world economy from the present vicious circle of inflation and recession and putting it back on the path of dynamic growth.



Financing for development for most of the developing countries, particularly for the least developed and the poorest among them, would have to be carried out of resources which are available on grant or near grant terms. This underlined the importance of increasing the ODA flows. Each developed country should accept the commitment to attain the 0.7% target early during the 80s at the latest, and adopt a planned rate of growth in its ODA flows during the next few years to attain this target. Great importance was attached to putting the flow of financial assistance to developing countries on an automatic and predictable basis. In this connection, the idea of an international fiscal system based on contributions by developed countries was reaffirmed and new arguments developed why for some projects and countries financing by loans is impossible or inefficient. A scheme of establishing an international current budget for this purpose was elaborated at the Meeting. The longstanding proposal for linking the creation of international reserve units with the provision of development financing for developing countries was endorsed again. It was also suggested that the level of obligation of each developed donor country under the link mechanism should be tied to the extent of the unmet obligations of each of them in connection with the established official development assistance target.

One of the most important challenges during the 80s will be to devise useful ways for deploying for productive purposes in developing countries, the largest possible proportion of the current account surpluses of the OPEC countries without adverse effects on these countries. Such surpluses are of temporary nature. They result from a higher rate of production of fast depleting assets and represent merely another form of the wealth of the producing countries rather than an assured renewable income. It is recognized therefore that these assets should not be wasted away but should be used to the benefit of the countries owning them with due consideration to the interest of developing countries at large.

The private banking system which succeeded in recycling a substantial part of such resources to developing countries in the 70s, cannot be counted upon to do so to the same extent in the 80s mainly because it seems to be approaching limits to its capacity.

Moreover, recycling through private banking channels has not always been for financing capital projects and development programmes. It is important to ensure that recycling during the 80s has maximum expansionary effect for the world economy as a whole by reducing the existing level of financial protectionism on capital markets and through the channeling of surplus resources increasingly for productive purposes in developing countries. It will therefore be necessary for the recycling to be carried out through the intermediation of international public institutions, which can borrow from the capital markets and make the resources available to poorer developing countries on concessional terms through the subsidization of interest rates by using resources that are made available to them for this purpose.

Special attention was given by the participants at the Meeting to the difficult position of the oil importing developing countries, given that in a large number of cases increases in the price of oil was a major cause for balance of payments deficits. It was suggested that solutions in this area should be sought by taking effective steps to lessen the adverse effects of rising import costs and through the setting up of special mechanisms of wide ranging cooperation between these countries to resolve their respective problems on the basis of optimum mutual benefit.

In view of the uncertainty surrounding the capability of the private banks to recycle surplus OPEC resources to developing countries on the scale called for during the 80s, it was important that the OPEC countries themselves expand direct investment in developing countries.

Indeed, in view of the great growth potential of the non-oil developing countries and the immense resources waiting to be exploited there, the economies of

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these countries may provide greater security for investment of OPEC funds than available in developed countries.

In this connection, it was also important to bear in mind that on account of the availability of skilled manpower and relevant technology in many of the non-oil developing countries, there was great complementarity between their economies and those of OPEC countries. Under appropriate circumstances, direct transfer of OPEC surplus resources either in the form of direct investment or concessio- nary aid could be in the best interest of the OPEC countries themselves. The Meeting took note of the increasing efforts of the OPEC members to intensify financial cooperation among developing countries. It noted, in particular, that the OPEC countries had embarked since the 60s on massive assistance efforts through national and regional funds, regional banks, international institutions and the OPEC Special Fund. The recent increase in the resource of the latter Fund and its transformation into the OPEC Fund for International Development on May 27, 1980 was a major step in expanding the activities of this institution which already covered 76 developing countries.

For quite some time OPEC has been seriously considering as to how it can contribute more effectively to the development of other developing countries by transforming the initial Fund created by it into a full fledged development agency. This process has already begun with the recent decision to transform the Special Fund into the OPEC Fund for International Development. It is significant that this development coincides with the call for a more effective South-South cooperation. In advance of the forthcoming New Round of global negotiations, the acceleration of this process is expected to serve the overall interest of a stable and growing world economy.

It should, however, be recognized that whatever the OPEC countries can do cannot be a substitute for the efforts expected from the developed countries. The OPEC assistance as a proportion of the GNP of the donors already exceeds by far the ODA target of 0.7% and the performance of the developed countries in this regard. It is therefore important to step up the flow of financial resources to developing countries from all available sources, particularly from the

developed countries, in order to meet the growing requirements of the developing countries for resources for development financing. An expansion of additional investment in developing countries will, among others, call for measures for an improvement of the investment climate in the capital importing countries.

In this context, the Meeting took note with interest that the Iraqi proposal for the creation of an International Fund has been under consideration in the appropriate international fora. The Fund would be financed by the developed countries to the extent of the annual quantum of their inflation exported to developing countries and by the OPEC countries to the extent of the annual quantum of increase in oil prices imported by developing countries. The Meeting also took note that the Government of Iraq had already been reimbursing to the developing countries in the form of loans on easy terms and free of interest, the bonuses on oil prices as determined by OPEC. Other OPEC countries have taken similar action at the regional level and the major donors among them are continuing their aid efforts through an increasing number of channels.

Foreign private capital has been playing a growing role in international financing. In this, joint ventures can play a useful role in appropriate circumstances. There is, however, a reverse flow of resources from developing to developed countries on account of the high rates of profit remittances and in the form of transfer pricing. This situation needs to be remedied by appropriate actions at the national and international level. Developed countries should adopt appropriate measures for improving the access of the developing countries to the former's capital markets.

Deliberation of the debt problem of non-oil developing countries underlined the importance of the excessive role of private and short-term financing. The persistent deterioration in the terms of trade, the rising cost of interest and other forms of payments and bunching of maturities have swollen debt service obligations and thereby reduced the absorptive capacities of these countries for both imports and further borrowing. Hence, in order to preserve the continuation of the development process, appropriate measures to stem the weakness in the balance of payments, as well as new principles for debt reorganization of interested developing countries are needed.

### Collective Self-Reliance among Developing Countries

The Conference recognized that collective self-reliance of the developing countries for tackling most of their development problems was of crucial importance. This will not only accelerate the development of these countries by the fullest possible utilization of the complementarities existing between their economies, but will also make a significant contribution to the establishment of the NIEO by reducing the dependancy of these countries on the North and by enhancing their countervailing power. Through speedier implementation of collective self-reliance policies as adopted by the non-aligned and Group of 77 developing countries, these countries should set in motion those quantitative changes in international relations, which they have been urging upon developed countries to bring about.

### Financing of Exploration and Development of Energy Resources

In view of the current energy crisis and the apprehension that it would get worse during the next two decades, it is necessary to mobilise resources for financing energy development programmes and projects. High priority should be attached to the development of the large potential energy resources in the developing countries where energy consumption is expected to grow at a faster rate than in the developed countries. In this context, the expanded efforts of the World Bank to help develop this sector in developing countries, particularly in areas such as oil and gas exploration and development, energy conservation, renewable sources of energy and coal, were positively assessed. In this connection, a suggestion was made that the proposal originally advanced by Mexico for a levy on oil exports to raise resources for financing the development of conventional and non-conventional energy resources in developing countries, should be seriously considered. Another view expressed was that international energy financing should be seen basically as the main responsibility of the industrialized countries which have the requisite resources and technology for this purpose. A proposal made in this regard was to set up an international energy financing agency which would be more inclined to provide risk capital than the existing international financing institutions and which would enjoy the confidence of all the countries.

### Cooperation among Banks

An all-round system of institutionalizing active development financing presupposes the creation of a wider, more adaptable and more modern banking and financial network within the developing countries themselves. A specially important task in this regard is the introduction of new banking technology and the training of experts in developing countries.

Special emphasis should be put on the role of central banks of the developing countries in the long-term establishment of foundations for inter-bank cooperation between similar groups of countries. There is also a need for a wider network of intermediary financial institutions whose purpose will be to mobilize all potential financial resources directed, above all, to the expansion of facilities for export credits for the developing countries.

New forms and methods of inter-bank cooperation should include credit arrangements through banking syndicates and consortia in which the established large banks of the developing countries would play a greater role; the opening up of resource transfer to inter-bank credit lines, revolving credits, the financing of currency conversion, foreign exchange financing acceptance and guarantees. The basic idea underlying these forms of cooperation is that they should enable the banks of the DCs to play an enhanced role as pacesetters for financing and in devising and applying more flexible methods of export financing.

### Institutional Requirements for More Efficient

#### Development Financing

1) The role of the IBRD and the IMF as the institutions having the primary responsibility for the initiation and the implementation of measures in the field of financing for development, and designed to promote accelerated growth of developing countries and a stable world economy, was widely recognized. In order that this role become increasingly effective in the future, it was considered that the functioning of these institutions and their future evolution should be guided by the following:

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- a) greater participation of the developing countries in the decision-making process within these institutions;
- b) the need to mobilize a considerably larger volume of resources so as to ensure the growth of their financing operations in real terms;
- c) the need to increase the average ratio of borrowing in relation to the total capital deployed;
- d) it would be particularly important that IMF conditionality is consistent with each country's development strategy and that criteria are defined so that short-term adjustment does not harm countries' long-term growth of production and employment;
- e) promoting new forms of transfer and retransfer of financial resources;
- f) enabling the system to finance medium-term balance-of-payments financing requirements of the developing countries which are at the moment covered neither by the World Bank nor the IMF;
- g) the need to mobilize resources for activities in specific sectors, such as financing the import of equipment, of agricultural development, of scientific and technological development etc.

The role of regional development banks and funds in financing economic development and needs to be expanded and strengthened was emphasized. For this purpose, these institutions should be endowed with adequate resources.

2) In a number of areas agreed conclusions and approaches for the modification of current practices and relationships had been reached, but progress in giving a practical shape to them has been disappointingly slow.

- a) In some areas, as in the case of the Common Fund, progress has been such as to expect an early and successful conclusion of the present negotiations but the implementation of the Integrated Programme for Commodities is not in sight since the negotiations on most commodity agreements are lagging if not stalled altogether.
- b) While it was welcome, the adoption of the Code on restrictive business practices, the urgent adoption of the Code (of Conduct) on Transfer of Technology and the Code on Transnational Corporations was required.

Special Session of the UN General Assembly

The Meeting agreed that the forthcoming Special Session of the UN General Assembly devoted to the questions of the New International Economic Order, was of exceptional importance. The Special Session is expected to carefully analyze the results attained in negotiations and implementation of the NIEO, particularly since the VI and VII Special Sessions. The Session should also adopt a programme and provide an orientation helping to intensify these processes in the coming years. On the outcome of the Special Session will greatly depend not only the faster development of the developing countries, in keeping with the declared intentions of the world community, but also a more equal development of the world economy as a whole, the removal of those barriers of a structural and institutional character which have for years been hampering indispensable development and a more adequate and rational division of labour and cooperation along world lines.

Concern was expressed at the slow progress made in the preparations for a new international development strategy and it was stressed that everything should be done to overcome the differences in approach to this. To create favourable conditions for the faster development of the world economy, it is necessary to determine such a rate of growth of the developing countries as will make it possible to start decreasing the gap in development and gradually to attain the goal of enabling the developing countries to increase their share in the world's industrial production from the present 8% to 25% by the year 2000. These far-reaching tasks the realization of which is in the interest of both the developed and developing countries, should be accompanied by corresponding measures and obligations on the part of the world community, particularly by the developed countries.

It is of utmost importance for global negotiations to be initiated at the Special Session. In this way, it would be the first time that negotiations on the major outstanding issues in international economic relations would be discussed

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within the United Nations system with the participation of all countries. In this sphere also it is necessary in the course of further preparations to transcend differences, not only in the organization and procedure for the negotiations, but also with respect to their substance. It is indispensable for efforts to be made within the framework of global negotiations for the solution of the numerous open problems that hamper at present the normal functioning of trade, financing and other matters, but it is also necessary to resolve long-term issues regarding the unfavourable structure of the world's economy, the industrialization of the developing countries, the question of energy and the like. Only in this way we can expect a change in the adverse trends that characterize the present-day phase of economic development in the world.

The Role and Contribution of the  
World Scientific Banking Meeting

Considerable progress has undoubtedly been made at the Second World Scientific Banking Meeting in the search for scientifically-based alternative changes in the field of international financing of economic development in order to open new avenues for dealing with the present world economic crisis. Despite differences in scientific approach and in the proposals put forward, a broad range of possible solutions has been created which, unfortunately, has not been realized for want of political will and agreement.

At the Meeting, as particularly prominent issues there appeared scientific and practical approaches to these problems which should be applied in an adequate measure when dealing with them at the level of political negotiation and decision-making. Given the present global economic crisis, it was pointed out both at the First and the Second Meeting (held in 1977 and 1980) that it would be highly risky to take political decisions on an ad hoc pragmatic basis and through bargaining in the process of short-term and apparent adjustment of differences.

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The Second World Scientific Banking Meeting, which has been established as a traditional place of science and banking practice towards the finding of the broadest possible solutions to open questions in the field of international financing of economic development, was recognized by the participants as extremely useful and pertinent and it was, therefore, suggested that it should be further promoted. The participants also pointed out that the Meeting, which rallies the leading world scholars, bankers and high officials of international, regional and national economic and financial institutions, would undoubtedly contribute, in dealing and searching systematically for new ways and methods of development financing, to the determination of more just and more rapid solutions on which largely depend the future not only of developing countries, but also of the human community as a whole. It was also noted that it would be very pertinent to organize special round table discussions between each two world scientific banking meetings for the purpose of broader clarification of certain most topical issues which were aroused during the previous meeting.

It was decided to convene the Third World Scientific Banking Conference in the last week of May 1983.

It was also decided at the Second World Scientific Banking Meeting to forward this Final Document to the forthcoming Special Session of the General Assembly of the United Nations, to the Group of 77 in New York and Geneva, as well as to the other important negotiating conferences on issues related to the establishment of the NIEO.

Dubrovnik, 1 June 1980

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