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INTERNATIONAL COOPERATION FOR ECONOMIC GROWTH AND DEVELOPMENT: IMPLEMENTATION OF THE INTERNATIONAL DEVELOPMENT STRATEGY FOR THE FOURTH UNITED NATIONS DEVELOPMENT DECADE

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Report of the Secretary-General

SUMMARY

The Persian Gulf war, recession in the developed market economies and the dissolution of the Soviet Union threatened to upset some of the basic premises of the Strategy soon after it was launched.

The Persian Gulf crisis had little impact at the global level. The recession in the developed market economies, however, turned out to be deeper and more persistent than predicted; and while a recovery is now expected in the second half of 1992, it is likely to be weak. The former Soviet Union and Eastern Europe will not soon become the new source of growth of the developing countries that the Strategy premised them to be.

The international economic environment has not been conducive to growth and development in other respects either. Though short-term interest rates have come down in most countries, long-term rates remain high. The Uruguay Round of the General Agreement on Tariffs and Trade (GATT) has remained stalled. Increases in external development finance have not materialized and the "peace dividend" has proved elusive.

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The pattern of growth and development in developing countries in 1991 remained essentially unchanged. Per capita incomes were stagnant or declined in Latin America, Africa, Western Asia, and the Mediterranean region; they rose in South and East Asia, though less than before, and there was a substantial increase only in China. Forecasts for 1992 are along the same lines, although with acceleration in Asia and some improvement in Latin America.

Development finance remains scarce. Some of the major donors are saddled with large fiscal deficits and deteriorating domestic economic and social conditions, constraining their ability and willingness to make new and additional resources available. While many view reducing military expenditures and eliminating agricultural subsidies as sources for additional development finance, it is not evident that this will materialize soon.

The need for domestic economic reform was stressed in the Strategy, and many developing countries have undertaken major policy reforms aiming at greater reliance on market forces and the private sector, stabilization and monetary and fiscal discipline, more realistic exchange rates and trade liberalization. In addition, many have embarked on democratization, popular participation, and greater respect for human rights. But without economic growth, improving the human condition is almost impossible. The adoption of policies and measures that entail considerable social cost without external support to mitigate those costs is politically unsustainable and puts fragile democracies at risk.

The eradication of poverty and hunger, human resources development, slowing population growth and environmentally sound and sustainable development are the four priority aspects of development identified in the Strategy. It is too early to discern major changes in these priority areas, but as government budgets are increasingly squeezed almost everywhere, outlays devoted to improving the human condition are probably being reduced in most countries.

The reversal of the trends in the first 18 months of the decade will require decisive efforts in virtually all countries. Developing countries should continue their economic reform process and consolidate gains from their stabilization and adjustment programmes in order to enhance investment opportunities. Developed countries should restore the primacy of economic growth. By expanding their production frontiers, developed countries will not only dynamize world trade, weaken protectionist pressures and improve prospects for primary commodities, but will also create new resources that would be an additional source of finance for investments in the North and the South.

IMPLEMENTATION OF THE INTERNATIONAL DEVELOPMENT STRATEGY FOR THE FOURTH UNITED NATIONS DEVELOPMENT DECADE

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INTRODUCTION

1. The present report was prepared in response to General Assembly resolution 45/199 and its annex entitled "International Development Strategy for the Fourth United Nations Development Decade" and adopted by consensus on 21 December 1990 at the forty-fifth session of the Assembly. In section VI of the annex, the Assembly sets forth a process of review and appraisal of the Strategy. While the Assembly recognized that the machinery for continued monitoring already existed and that review and appraisal was already built into the procedures of the United Nations, particularly at the sectoral level, the Assembly nevertheless felt the need for a review and appraisal of progress towards attaining the goals and objectives of the Strategy as a whole and requested the Secretary-General to undertake such a review and appraisal on a biennial basis.

2. The present report is the first of these reviews and appraisals. Less than a year and a half has passed since the Strategy was adopted, but in this time the assumptions on which it was based have been upset by unanticipated developments. The report is thus largely devoted to a review of how they have affected the prospects for the Strategy. It does not contain an account of the sectoral activities in furtherance of the Strategy carried out by the agencies, bodies, organs and organizations of the United Nations system. The latter, as the Strategy notes, is already accomplished through annual reports of the various entities of the United Nations system.

I. SUMMARY AND CONCLUSIONS

3. Three major developments threatened to upset some of the basic premises of the Strategy soon after it was launched: the Persian Gulf war, recession in the developed market economies and the dissolution of the Soviet Union.

4. In the event, the crisis and war in the Persian Gulf region left little trace at the global level, despite its continuing impact on Iraq and the great losses of home countries of the migrant labourers in Kuwait and Iraq. Oil prices have returned to pre-crisis levels.

5. The recession in the developed market economies, however, turned out to be deeper and more persistent than predicted. While a recovery is now expected in the second half of 1992, it is likely to be weak. The resumption of growth in the industrialized economies, a major premise on which the Strategy based its objective of accelerated development in developing countries, has not materialized.

6. The international economic environment has not been conducive to growth and development in other respects either. Although short-term interest rates have come down in most countries, long-term rates remain high. The Uruguay Round has remained stalled. Increases in external development finance have not materialized and the "peace dividend" has proved elusive.

7. The disintegration of the USSR and the economic contraction in Eastern Europe have had a relatively minor impact on the world economy, except for those countries that had close trade relations with the former USSR. The Strategy saw reform and restructuring in Eastern Europe as a potential new source of growth and development for developing countries, largely through expanded trade, but that seems highly unlikely during the first half of this decade. Financial flows to developing countries have not contracted and it cannot be shown that they would have been greater if the new calls for assistance to Eastern Europe had not arisen. However, there has clearly been a considerable diversion of attention.

8. The pattern of growth and development in developing countries in 1991 remained essentially unchanged. As tables 1 and 2 show, per capita incomes were stagnant or declining in Latin America and the Caribbean, Africa, Western Asia and the Mediterranean region; they rose in South and East Asia, though less than before, and there was a substantial increase only in China. Forecasts for 1992 are along the same lines, although with acceleration in Asia and some improvement in Latin America.

9. The Strategy emphasized the need for additional financial resources, but development finance remains scarce. Some of the major donors are saddled with large fiscal deficits and deteriorating domestic social and economic conditions, constraining their ability and willingness to make new and additional resources available. While many view reducing military expenditures and eliminating agricultural subsidies as sources for additional development finance, it is not evident that this will come about soon. Although military outlays are being reduced, the savings may well be applied first to reducing deficits or financing domestic social and physical infrastructure.

10. The need for domestic economic reform was stressed in the Strategy, and many developing countries have undertaken major policy reforms aiming at greater reliance on market forces and the private sector, stabilization and monetary and fiscal discipline, more realistic exchange rates, and trade liberalization. In addition, many have embarked on democratization, popular participation and greater respect for human rights. But without economic growth, improving the human condition is almost impossible. Adoption of policies and measures that entail considerable social cost without external support to mitigate those costs is politically unsustainable and puts fragile democracies at risk.

11. The eradication of poverty and hunger, human resources development, slowing population growth and environmentally sound and sustainable development are the four priority aspects of development identified in the Strategy. It is too early to discern major changes in these priority areas, but as government budgets are increasingly squeezed almost everywhere, outlays devoted to improving the human condition are probably being reduced in most countries.

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Table 1. Developing countries: real GDP per capita 1990-1992

(1990 = 100)

	1990	1991	1992 a/
Developing countries	100	101.3	103.6
Latin America and the Caribbean	100	100.6	101.0
Africa	100	99.8	100.0
South and East Asia	100	103.1	106.5
China	100	105.5	111.2
Western Asia	100	97.2	98.4
Mediterranean	100	91.5	92.4

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

a/ Forecast.

Table 2. Developing countries: real per capita income a/ 1990-1992

(1990 = 100)

	1990	1991	1992 b/
Developing countries	100	100.5	103.2
Latin America and the Caribbean	100	100.1	101.9
Africa	100	98.1	99.8
South and East Asia	100	102.5	106.2
China	100	106.1	111.1
Western Asia	100	94.4	95.8
Mediterranean	100	92.2	90.9

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

a/ GDP adjusted for net interest and dividend payments and terms-of-trade changes.

b/ Forecast.

12. In the light of developments in the early 1990s, are the goals and objectives of the Strategy still valid? Unlike its predecessors, the Strategy for the 1990s does not set specific targets but only broad goals in critical areas. Furthermore, the Strategy recognizes that many of its objectives can be realized only in the medium and long terms. In this sense, its goals and objectives remain valid.

13. None the less, a number of concerns have already become more prominent than at the time when the Strategy was adopted. The repercussions of the disintegration of the Soviet Union for international economic relations are one such concern. The integration of the Eastern European countries and the successor republics of the Soviet Union in the world economy as well as their own transformation will be a long and difficult process.

14. The environment is identified as a priority aspect of development in the Strategy, but the extensive programme adopted at the United Nations Conference on Environment and Development goes farther than anticipated in the Strategy and spells out in considerably greater detail the large number of issues involved in the pursuit of sustainable development.

15. The Strategy was conspicuously silent on the subject of international migration; there is as yet no internationally agreed approach to movements of people induced by economic incentives. However, in the brief period that has elapsed since the adoption of the Strategy, concerns about such migration have grown and economic assistance is frequently presented as a way to ward off mass movements of people.

16. The reversal of the trends in the first 18 months of the decade will require decisive efforts in virtually all countries. Developing countries should continue their economic reform process and consolidate gains from their stabilization and adjustment programmes in order to enhance investment opportunities. Developed countries should restore the primacy of economic growth. By expanding their production frontiers, developed countries will not only dynamize world trade, weaken protectionist pressures and improve prospects for primary commodities, but will also create new resources that would be an additional source of finance for investments in the North and the South.

II. REACTIVATION OF DEVELOPMENT

A. World economic growth in 1991 and short-term prospects 1/

1. Overview

17. One of the goals of the Strategy is a surge in the pace of economic growth in the developing countries. It calls for "more than marginal increases in growth rates" and suggests that a sustained annual economic growth rate of 7 per cent would provide the necessary conditions for a genuine transformation of the developing countries.

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18. But world output declined in 1991 for the first time since the end of the Second World War, and projections indicate only a modest recovery of growth in 1992. A big factor in the fall of world output in 1991 was the sharp decline in Eastern Europe and the former USSR, but there was also a deceleration of growth in the industrial economies, many of which were in recession. The developing countries grew as slowly as before the Strategy was adopted.

2. Developed market economies

19. The Strategy notes that the major industrialized countries influence world economic growth and the international economic environment profoundly and they therefore should continue their efforts to promote sustained growth and to narrow imbalances. The early 1990s were not auspicious on this score.

20. The developed market economies as a whole grew by only around 1 per cent in 1991 and are projected to grow by under 2 per cent in 1992. By late 1991 five of the major seven economies were in recession and unemployment had reached its highest level since the early 1980s in many countries: in 1991 it increased by 3 million people.

3. Economies in transition

21. Putting a new system in the place of central planning has proved considerably more difficult than expected and, although the private sector has started to grow, it is still too small to arrest the decline. A savage economic contraction has taken place for which no precedent in industrialized countries exists. Output declined by around 16 per cent in 1991 and is expected to decline further by 12 per cent in 1992. Investments have fallen to levels of the mid-1970s. With deep cuts in investments, essential maintenance has been neglected, thereby threatening even the viable capital stock.

22. The social costs of the disruption are high. The number of unemployed has dramatically increased and the private sector is too small to absorb the unemployed. Social safety nets are inadequately funded, poverty is growing and homelessness is increasing.

23. All the new republics that once made up the USSR can be considered middle- or low-income countries. Among these, the Asian republics are the most vulnerable as they used to receive considerable resource transfers from the other republics.

4. Developing countries

24. The developing countries as a whole grew at a sluggish rate of 3.4 per cent in 1991, which was no different from the rate of growth of the previous two years. But there was great diversity among regions. Growth is projected at around 4.5 per cent for 1992.

(a) Latin America and the Caribbean

25. Economic growth in Latin America and the Caribbean amounted to 2.6 per cent in 1991 or a marginally positive per capita growth for the first time since 1987. Still, the regional gross domestic product (GDP) per capita is lower than in 1980.

26. However, inflation has abated, which has improved short-term prospects. External debt problems have become more manageable and adjustment and stabilization efforts have been more successful. Nevertheless, these achievements are still fragile.

27. All the countries of the region have moved towards free markets, trade liberalization and a reduced role of the State in the economy. Restoration of fiscal balances is generally viewed as essential to macroeconomic policy. Inflation is largely fought through fiscal policies and curtailment of real wages in the formal sector. Deficits have been reduced substantially as fiscal austerity has intensified.

28. Owing to the recession in the industrialized countries and greater domestic absorption in some countries, export revenues stagnated in 1991 after rapid growth in previous years. Imports surged as a result of economic recovery and trade liberalization.

29. The burden of servicing the external debt eased as international interest rates declined. As a result of the large differential between domestic and international rates of interest as well as the restoration of investor confidence, there has been a surge in private capital inflows and a return of capital. Consequently, the net financial transfer to Latin America turned positive for the first time since 1981. However, with the shift in capital flows, currencies have appreciated causing imports to rise faster than exports.

(b) Africa

30. Growth of output in Africa was about 3 per cent in 1991, which was less than population growth. The Persian Gulf crisis affected the region in the first half of 1991 but in the second half tourism and workers' remittances returned to normal and energy prices fell.

31. Inflation accelerated in 1991 and terms of trade continued to deteriorate. Export revenues did not increase despite increase in volume.

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32. Food production increased but in a number of countries it was severely affected by civil strife and drought. Famine is threatening an estimated 34 million persons on the continent. Poverty continues to increase and is pervasive in rural areas as little progress has been made in creating off-farm employment. Population growth rates are still high, and commodity prices continue to decline. Even under normal conditions there is lack of credit, poorly developed marketing, distribution and transportation systems, inadequate extension services and untimely delivery of fertilizers and seeds.

33. A large number of African countries are pursuing economic reform. However, for many countries too little time has elapsed since the adoption of structural adjustment measures to expect any results.

34. Many African countries have reduced budget deficits by privatizing State-owned enterprises, by increasing tax revenue and by reducing payroll expenditures. However, some economic reforms lead to reduced government revenues in the short term. This is particularly true of trade liberalization as 25 per cent of government revenues is derived from tariffs in almost all African countries. Export tax revenues have declined because of declining commodity prices.

35. Of potentially major consequence for the continent are the political changes that are taking place in South Africa. The country has the potential to become a supplier of capital and technology-intensive goods to the rest of Africa and could become a financial centre.

(c) Western Asia and the Mediterranean

36. The economic situation in Western Asia has been largely marked by the Persian Gulf crisis and war. The economies of Iraq and Kuwait were devastated and their output plunged, but output rose in the major energy-exporting countries. Loss of trade, tourism and workers' remittances affected the energy-importing and poorer countries of the region, and total GDP of the region declined in 1991. Economic activities have recovered after the end of the hostilities, but almost all countries of the region are facing increased budget deficits as a result of war-related spending. This includes spending on social services for returnees and refugees.

37. Per capita incomes in Western Asia fell in 1991 and are unlikely to rise in 1992. Reconstruction has begun but widespread human suffering in several of the countries in the region renders the attainment of the objectives of the Strategy extremely difficult, if not impossible.

38. In the Mediterranean region growth collapsed with civil war and ethnic violence in Yugoslavia and sharp deceleration of growth in Turkey. However, in the latter country expansionary fiscal policies and the end of the Persian Gulf war have led to economic recovery in the second half of 1991.

(d) South and East Asia and China

39. Economic growth accelerated in China in 1991. Its gross national product (GNP) grew by 7 per cent or 2 per cent more than in 1990.

40. South and East Asia remained the fastest growing region in the world in 1991 at 5.4 per cent, although this was 1 per cent less than in 1990. On the whole it showed a remarkable resilience to the unfavourable international economic environment. Growth in domestic demand rather than growth in exports was largely responsible for this performance, although exports also grew fast. With the exception of the Philippines and India all the economies of the region grew much faster than their rates of population growth.

41. Against a backdrop of a very weak international economy, the performance of most Asian developing economies suggests that autonomous growth impulses have become more important. Short-term prospects point to continuing high rates of growth. The lessons of this performance should be analysed further as they might provide insights for other developing countries when formulating policies.

42. There is room for a considerable reduction in military expenditure, which has diverted funds away from infrastructure and social services. Following the end of the cold war and the settlement of the Cambodian conflict, a coordinated reduction in military expenditures throughout the region should be possible. The savings from such a reduction can be mobilized for poverty alleviation in a region which has more people below the poverty line than the entire population of Africa.

B. Policy stances and the medium- to long-term outlook

43. The Strategy notes that the major industrialized countries have a special responsibility to bring about a stable and predictable international economic environment in which development can succeed. These countries, the Strategy emphasizes, should aim at correcting existing external and fiscal imbalances, promoting non-inflationary sustainable growth, lowering real rates of interest, and making exchange rates more stable and markets more accessible.

44. The emphasis on increased price stability by monetary authorities in developed market economies in the early 1990s has created a less inflationary global environment. But growth decelerated and recovery is expected to be comparatively weak and the rate of growth is expected to remain modest throughout the first half of the 1990s.

45. The trend towards policy reform in developing countries has intensified. Major steps have been taken to open up their economies and to broaden opportunities for private initiative. There is also a perception that there is no substitute for a macroeconomic framework characterized by fiscal prudence, sound monetary policies and exchange rates that duly reflect relative scarcities and do not inhibit exports. Emphasis on human resource

development, a key aspect of the Strategy, is also present in plans, national strategies or development programmes. All of this leads to a more favourable assessment of medium-term prospects. Indeed, with reform programmes in place, there is now more optimism about sustained economic growth in Asia at comparatively high rates and about a significant recovery in Latin America.

46. The prospects in Africa appear more clouded despite reform measures in a significant number of countries. The response of private agents remains limited and investments and international financial support have not yet picked up. There are few signals of improved food security. The danger of unfavourable weather leading to a major set-back in agricultural production and threatening other development programmes is still present.

47. At least 13 countries in eastern and southern Africa are currently experiencing a severe drought. Besides the direct devastating effect on food production, the drought is likely to have adverse effects on domestic incomes, capacity to import non-food items, employment and inflation.

48. If countries are to achieve the volume of investments commensurate with the objectives of the Strategy, savings have to increase considerably. Such an effort may in some countries be facilitated by the reduction in conflicts and border tensions accompanied by regional security agreements.

49. The transformation in Eastern Europe and the republics that used to constitute the USSR will require considerable technical and financial support from the international community. If truly additional resources are not found in traditional donor countries or provided to multilateral institutions, there is the danger of a massive reallocation of resources and a diversion from the tasks envisioned in the Strategy. Once the economies of Eastern Europe and of the former USSR start expanding again, they will constitute an important growth pole for the world economy. However, it is unlikely that this will occur during the 1990s.

1. External debt

50. The Strategy observes that development during the 1990s should not be hampered by prolonged failure to resolve the international debt problem, and that innovative solutions need to be found and relief obtained in the initial years of the decade.

51. Today's international debt strategy recognizes that many heavily indebted countries cannot work themselves out of their debt overhang and that some debt has to be written off as uncollectible while debtor countries undertake the structural changes that are required for adjustment. Although debt remains a major problem for a number of developing countries, progress has been made in debt rescheduling and debt forgiveness.

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52. The total stock of debt owed by the capital-importing developing countries at the end of 1991 was virtually unchanged from the year before. The total amount of debt in dollar terms stayed at about the level of 1987, but as a share of GDP it fell from 50 per cent in 1987 to 36 per cent in 1991, showing little change from 1990. The stock of debt declined slightly in 1991 in Africa and Latin America but increased in Asia.

53. At the London Economic Summit in July 1991, the Group of Seven recognized that debt relief "well beyond the Toronto terms" was needed for the lower-income countries whose debt burden was high. In reponse to this call, the Paris Club introduced new, exceptional terms towards the end of 1991. Consequently, pressure stemming from official debts has eased in a number of countries as partial debt forgiveness and more favourable reschedulings have become more frequent in the Paris Club negotiations. However, no consensus has been reached among the bilateral creditors on the more generous "Trinidad terms".

54. Negotiations to restructure the debt owed to international commercial banks have in recent years been conducted under the so-called Brady initiative. Lower interest rates and debt renegotiations, including debt rescheduling and debt reduction clauses, have eased the balance-of-payment pressures of several developing countries with large commercial debts.

55. Besides negotiations under the international debt strategy, both large- and small-scale debt conversions have continued to take place. Large-scale debt-for-equity swaps were made in conjunction with privatization measures and some debt-for-nature swaps have also been made.

56. One reason for guarded optimism is that certain heavily indebted countries, mainly in Latin America, are again considered creditworthy. The big improvement in the net transfer of resources of these countries in 1991 shows that the principal benefit of the debt regularization process is the encouragement of direct investment, the return of flight capital, foreign portfolio investment and new lending. While the debt crisis has been blunted, it has not yet been solved. Many countries have made great strides but other countries, including some of the poorest, still have a long way to go.

2. <u>External development finance</u>

57. Adequate resources, both domestic and external, are an essential condition for the reactivation of development, the Strategy notes.

58. In 1991, the net transfer of financial resources from developed market economies to the developing countries amounted to about $24 billion. This represents a major turnaround from previous years when net financial transfers went in the opposite direction. The $5 billion that was transferred in 1991 to the capital-importing developing countries represents a net swing of $36 billion compared to 1990, mostly in favour of the heavily indebted countries. Some small amount was also transferred to the countries of Eastern

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Europe and of the former Soviet Union. However, if financial assistance proposals for the successor republics are implemented, the net transfer to those countries in 1992 will be quite large.

59. Developing country borrowing on international markets has begun to rise. Market access is still limited, with most of the borrowing done by Asian developing countries, although some Latin American countries are also participating. African countries showed virtually no activity in these markets and, for them and other countries with limited access to private markets, official assistance remains crucial.

60. The net flow of foreign direct investment has not increased much in the past few years. The flow to capital-importing developing countries rose from around $8 billion in the mid-1980s to $17 billion in 1989 but remained at about the same level in 1990 and may have increased to around $19 billion in 1991.

61. Exceptional circumstances led to a sharp increase in official flows in 1990. Official grants rose from $14 billion in 1989 to around $29 billion in 1990 and around $32 billion in 1991, largely due to increased grants to countries affected by the Persian Gulf crisis. In 1992 official flows are expected to fall to more normal levels. The medium-term outlook is not promising. Official development assistance (ODA) in real terms is at most expected to grow at 2 per cent per year.

62. A major test of the prospects for ODA will be the negotiations currently under way for the tenth replenishment of the International Development Association (IDA), the concessional lending facility of the World Bank. This replenishment will cover the period June 1993 to June 1996 and should entail a substantial increase over the previous one. In addition to meeting the needs of the long-term IDA recipients, resources will be needed for new low-income member countries, of whom eight were admitted to IDA membership since the last replenishment, not counting the successor States of the Soviet Union.

63. The delay in implementing the intergovernmental commitment on the ninth quota review of the International Monetary Fund (IMF), which will raise Fund lending by 50 per cent, is a particularly serious matter in view of expected demands on Fund resources from the successor States of the former Soviet Union.

64. Still, lending by IMF rose appreciably in 1991, in part to the economies in transition but also to the developing countries for which lending on a net basis turned positive for the first time since 1985, mainly on account of lending through the Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF).

65. On the other hand, the International Finance Corporation (IFC), an affiliate of the World Bank that supports enterprise development, cut back its commitments in 1991 for the second year in a row, partly because of the capital constraints on the facility.

66. The Strategy notes that economic reforms and the integration of Eastern Europe into world markets will generate substantial new demands for resources and insists that such needs should be met without diversion of the flows needed by developing countries.

67. At present, the economies in transition are virtually excluded from the world's capital markets. Therefore, external finance will have to be provided through official entities, mainly in the context of adjustment and development programmes agreed with IMF, the World Bank, and the European Bank for Reconstruction and Development (EBRD).

68. Since 1989 the industrialized countries have pledged $45 billion to speed economic recovery in Eastern Europe but only about 20 per cent of this has been disbursed. In April 1992 a multilateral financial assistance package for the Russian Federation was announced by the Group of Seven and earlier in 1992 almost $79 billion had been committed by a large group of donors for humanitarian and emergency assistance to the Commonwealth of Independent States. Much of this assistance has still to be disbursed, and therefore the additional needs are difficult to gauge.

3. International trade

69. Growth and development and the solution of the pressing problems facing the developing countries are dependent on an open and credible multilateral trading system based on the principles of non-discrimination and transparency, the Strategy argues. Therefore, a successful and balanced conclusion of the Uruguay Round is crucial for progress in the 1990s.

70. The growth of international trade slowed down from over 8 per cent in 1988 to under 5 per cent in 1990 and to about 3 per cent in 1991. Although it is expected to improve in 1992, the medium-term outlook is not for robust growth. Until May 1992, negotiations under the Uruguay Round remained stalled.

71. Meanwhile, trading blocs are emerging in increasing numbers and have raised fears of exclusion among non-participants. The Strategy recognizes the great potential for economic cooperation among developing countries (ECDC) in order to create trade opportunities among themselves. In the early 1990s a number of free trade agreements were either established or further strengthened, for example, the African Economic Community, the Preferential Trade Area for Eastern and Southern Africa, the Association of South-East Asian Nations (ASEAN), the Caribbean Economic Community (CARICOM), and the Southern Cone Common Market (MERCOSUR).

72. Market intervention, protectionism and subsidization of agriculture in developed market economies send the wrong signals to developing countries. They also inhibit developing economies that are attempting to diversify agricultural production.

73. While the Strategy notes that the reform and restructuring of the economies of Eastern Europe and their integration into the world economy can contribute to the strength and dynamism of world trade, evidence so far points in the opposite direction. Exports from Eastern Europe and the former Soviet Union fell almost 22 per cent in 1991 and their imports contracted by 30 per cent.

74. The progressive integration of the world economy and the growing concern with environmental issues have combined to stimulate a greatly increased interest in the interaction between trade and trade policies on the one hand and environmental issues on the other. This will rank high on the agenda of future multilateral trade negotiations.

4. Commodities

75. The average price of non-fuel commodities declined by more than 6 per cent in 1991 in nominal dollar terms and about the same in terms of prices of manufactured goods. Although this was an improvement over the decline in real terms of almost 15 per cent in 1990, it constituted a further worsening of the depressed levels of commodity prices and earnings which, as the Strategy points out, will continue to play a key role in the economies of most developing countries in the 1990s. Real prices of commodities (in terms of prices of manufactures) were 25 per cent lower than in the mid-1980s. They are unlikely to recover significantly in the near future.

76. Energy prices rose sharply in 1990 as a result of the Persian Gulf crisis but declined in 1991 to the 1989 level. In 1991 prices in nominal terms were not much higher than in 1986 and much lower in real terms.

5. Science and technology and industrial policies

77. The Strategy warns that a sustained acceleration of the development process will not take place unless developing countries participate in the progress made possible by advances in science and technology.

78. The current technological revolution continues to bypass large parts of the developing world. However, some of the economies of South and East Asia have demonstrated that the technological progress of the West can be repeated elsewhere. The Asian experience, though often considered non-transferable, can provide important lessons for other developing countries.

79. The Strategy stresses that an acceleration in the process of industrialization must be a central element in the economic transformation of most developing countries and in the reactivation of development in the 1990s. Consequently, policies and measures to promote industrialization must be a major plank in the Strategy for the 1990s.

80. The prospects in this regard, particularly for sub-Saharan Africa and to a lesser extent the Latin America and the Caribbean region, are bleak. During the 1980s, these two regions had an annual manufactured value-added growth of 0.5 and 1.6 per cent respectively. This is well below population growth rates and implies negative growth of per capita industrial activity. A number of countries, mostly in Asia, continue to make large strides in industrialization, mainly based on outward-looking policies but also, in recent times, taking advantage of their own internal dynamism. In a far greater number of countries, especially in Africa, industrial production continues to stagnate and a viable industrialization strategy is still to emerge.

81. The failure of import-substitution strategies is giving way to policies that take into account international market opportunities on both the export and the import side and aim at economies of scale. This is also reflected in the efforts of developing countries to revitalize existing integration schemes or establish new ones. The principal aim is not as in the past to prevent third parties from penetrating domestic markets, but to open markets to members of the integration scheme while gradually reducing barriers to the outside world.

82. Direct foreign investment, the Strategy notes, can make an important contribution to industrialization in developing countries. As noted above, the flow of foreign investment to developing countries has increased. The bulk of it, moreover, goes to the already dynamic and industrializing countries. Almost everywhere, however, developing countries are establishing new laws and welcoming foreign investment.

6. Agriculture

83. Food and agriculture remain critical issues for most developing countries. Today, agriculture is viewed as a priority area in many countries. There is general recognition of the importance of market forces, particularly in marketing and distribution. At the same time, a strong public sector is needed for rural infrastructure, agricultural technology generation and diffusion and direct nutrition interventions.

84. A number of developing countries have encouraged domestic production of food staples, with higher guaranteed prices for producers. Partly as the result of this, some Governments have been forced to increase consumer prices of basic foods, thus increasing problems of food access among vulnerable sections of their populations. There have also been initiatives in a wide range of developing countries to liberalize stock management and marketing arrangements, with the private sector taking an increasingly prominent role.

III. THE HUMAN CONDITION

85. The Strategy recognizes that the benefits resulting from economic growth have to be equitably distributed and the environment protected. If poverty persists and the human condition continues to be neglected, political and social strains will inevitably occur. Similarly, if economic growth proceeds at the expense of the integrity of the environment, development will become unsustainable. Consequently the Strategy has as its principal theme the strengthening of the relationship between economic growth and human welfare.

86. In the 18 months that have elapsed since the adoption of the Strategy, no significant advancement in the human condition could be expected. Moreover, with many of the prerequisites for the resumption of growth and development in developing countries still waiting to be met, it is doubtful that much progress has been made in laying the foundations for improving human welfare in the remainder of this decade.

A. Alleviation and eradication of poverty and hunger: trends and approaches

87. Over 1.1 billion people in the world are estimated to live in poverty, and of them over 600 million are deemed "extremely poor". Of those 600 million, two thirds live in Asia, where they are concentrated in rural areas with high population densities. In sub-Saharan Africa, 120 million people are estimated to be extremely poor, most of them in rural areas. In Latin America, extreme poverty encompasses 50 million and is concentrated in the Andean highlands, urban slums and among rural landless households. In North Africa and the Near East, 40 million extremely poor are dispersed in smaller, less visible pockets in rural and urban areas.

88. Although the link between changes in GDP and social indicators is tenuous in the short term, in the medium to long term a growing economy is needed in order to raise standards of living and eliminate poverty. In countries with rising per capita income, social conditions generally improved in the 1980s. In most of them, substantial gains were achieved in agricultural production. The share of the absolute poor diminished in those countries. In countries with declining per capita income, living standards worsened and progress in social indicators slowed down or was reversed. The number of people living in absolute poverty rose substantially.

89. According to Secretariat projections, world economic growth is expected to remain significantly below its long-term historical trend during the 1990s, albeit somewhat higher than recent experience. As a result, many developing countries will continue to experience acute poverty with little prospect for improvement. According to the baseline scenario, 976 million people, as compared with 1.05 billion in 1990 and 994 million in 1980, will still have a per capita annual income of less than US$ 300 (in 1980 dollars) by the year 2000. All the improvement is expected to take place in the Asian region,

while in Africa and Latin America and the Caribbean the number of people in this category is projected to increase.

90. Simulations by the World Bank show that, if growth rates for developing countries were to average only 3 per cent per capita in the 1990s, the number of poor people in developing countries could fall from 1.1 billion in 1985 to 825 million by the year 2000. As the Strategy noted, sustained growth at a rate of around 7 per cent would provide the conditions for a genuine transformation of the economy including rapid increases in poverty eradication. Clearly, the first 18 months of the 1990s are not auspicious for fulfilling those conditions during this decade.

91. Budgetary constraints have led to a curtailment of commitments to the social sectors. However, there is scope for a better allocation and use of available resources. This has spurred the search for more innovative and efficient ways of implementing poverty-related programmes and projects.

92. The social implications of structural adjustment and stabilization programmes in developing countries and the lessons from the rapid transformation process in the formerly centrally planned economies point to the need for effective social safety nets, special social funds and special employment programmes.

93. The International Labour Organisation (ILO) and other United Nations organs and agencies are working closely with IMF and the World Bank to mitigate the negative effects of structural adjustment programmes (SAPs) by improving their social content. This involves an emphasis on policies for higher growth, job creation, infrastructure development and access to health care, education and training and balanced programmes for the development of rural and informal sectors, all of which are essential for reducing poverty. At the World Bank, new directives make sustainable poverty reduction an overriding objective.

94. Concerning food security, food supplies in low-income food deficit countries are likely to be adversely affected by the decline in production of staple foods in 1991, particularly of cereals. Their total import requirements are expected to grow in 1991/92, but food aid shipments to them are forecast to remain constant, adding to their food supply problems. The production shortfall and expected draw-down of stocks are pronounced in China and in the low-income food deficit countries of Central and South America. The food situation in sub-Saharan Africa improved during 1991, particularly in the Sahel and other parts of western Africa, but the situation in a number of countries, particularly those affected by drought in southern Africa and the Horn of Africa is, however, extremely serious.

95. Food aid will be required on an increasing scale during the 1990s. Recent projections suggest a need for at least 20 million tons more each year to meet minimum nutritional requirements and to provide food security. Meanwhile cereal food aid deliveries remain at about 11 million tons a year

and resources provided to the World Food Programme (WFP) for development projects have declined.

96. With the recent escalation in natural and man-made emergencies, there has been a shift in the deployment of WFP resources from development to disaster relief. Half of all deliveries of WFP's own food aid in 1991 went for emergencies and for long-term refugees and displaced people compared to about one third in previous years.

97. In many countries women account for the bulk of food production and are the providers of household food security and welfare. Unless their role as producers can be supported and enhanced, there is little prospect of overcoming hunger or poverty in the rural areas in developing countries. The recently convened World Summit on Economic Advancement of Rural Women called for increased inter-agency collaboration for improving the conditions of 550 million rural women who are at the centre of hard-core poverty.

98. The relationship between poverty and natural resource degradation is highly complex. However, there is a significant correlation between poverty and environmental degradation. Without poverty alleviation and eradication, protecting the environment will be difficult in many developing countries. But environmental and natural resources management can provide avenues for reducing poverty. Rural development schemes which relate short-term income provision to long-term increases in natural resource productivity contribute to the reduction of poverty in sustainable ways.

99. The Strategy does not address the alarming trend in international illicit drug trafficking, which links poverty in rich countries with poverty in poor countries. Eradication of illicit narcotic crops not associated with redevelopment will prove only temporary and no long-term progress can be expected.

B. Human resource and institutional development

100. Human resource development is both a source of gains in human well-being and a crucial means of expanding the productive capacity of people. In developing countries there is a demonstrable waste of human resources as a result of premature death, recurring and disabling sickness and illiteracy. Although over the long term striking progress has been made in human resource development, the 1980s was marked by stagnation and reversals in many countries, especially in Africa and Latin America.

101. While some reduction in communicable diseases is occurring - mainly through immunization - many communicable and parasitic diseases continue unabated, and some are worsening (malaria, tuberculosis, human immunodeficiency virus (HIV) and cholera). Simultaneously, chronic diseases (cardiovascular, cancer and diabetes) are increasing.

102. The completed second evaluation of the Global Strategy for Health for All by the World Health Organization (WHO) completed in November 1991 shows that health policy implementation is not satisfactory. While theoretical coverage of health care has been extended in most countries to 80 or 90 per cent of the population, actual access to health services, particularly for the least advantaged populations, is much lower.

103. Government budgets are not expanding to meet health needs; past investments in health infrastructure are proving difficult to sustain. Recent reforms in many developing countries involve reviewing the role and responsibilities of government in the public health sector. In all likelihood greater health care roles will be defined for private and non-governmental services.

104. Increasing reliance on market forces is also evident in the housing sector. Governments are focusing on enabling and empowering strategies in line with the Global Strategy for Shelter to the Year 2000. A relaxation of government regulations in housing is taking place with more emphasis on small-scale enterprises. Conceptual, analytical and institutional frameworks are inadequate for monitoring the performance of the housing sector. To remedy this, the United Nations Centre for Human Settlements, in collaboration with the World Bank and other donors, is implementing a "housing indicators programme" to create a basic set of key indicators for the housing sector.

105. Reallocation of existing resources is not enough to achieve human development. There also have to be more adequate resources. The decline in real per capita GDP in many countries during the 1980s and the declines in public expenditures have made it difficult or impossible to achieve this objective. Given that the fall in social expenditures paralleled that of GDP, it seems that the general lack of resources rather than diminished governmental priorities caused the declines in the social sectors.

106. Improvements in domestic policies and programmes for human resource development are necessary, but international assistance can be supportive. Indeed, the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) considers human resource development to be central in development cooperation strategies and also emphasizes that assistance for human resource development enjoys widespread public support in donor countries.

107. One phenomenon in the social sphere which has widespread consequences for human development and deserves close attention is the unforeseen magnitude of the global shadow caused by the acquired immune deficiency syndrome (AIDS) pandemic. AIDS has the potential to disrupt development in parts of the developing world.

108. The number of HIV-infected persons continues to increase. Estimates are continually being revised upwards. At the beginning of 1992, it is estimated that some 9 to 11 million men and women and 1 million children are infected with HIV. By the year 2000, it is estimated that, of the 30 to 40 million

cases projected, 90 per cent will be in developing countries. The situation in sub-Saharan Africa is particularly daunting with 6.5 million men and women and 750,000 children infected. The disease is spreading rapidly to low-prevalence areas such as South-East Asia and also from urban to rural areas. Thus, the incidence of HIV in South-East Asia could surpass that of Africa during the second part of the 1990s.

109. Caring for AIDS patients is expensive. For example, the direct costs in developed countries amounts to as much as $36,000 per patient, which is in striking contrast with the situation in developing countries, where only about $3 to $5 is spent on health per capita per year. In some countries treating all HIV/AIDS patients would absorb 50 per cent of the annual health budget.

C. Population

110. The Strategy emphasizes that problems of rapid population growth, population distribution, migration, dependency and urbanization pressures adversely affect most aspects of social development and many aspects of economic growth as well.

111. In 1990, of the world's 5.3 billion people, almost 4.2 billion lived in developing countries. By the year 2000, United Nations "medium variant" projections suggest that these numbers will have increased to 6.25 billion and almost 5 billion respectively. In all regions except Africa, population growth rates have been declining since the mid-1960s. However, declining birth rates mask the population momentum: each woman is having fewer children, but many more women are giving birth. The downward trend in birth rates might not continue as increasing numbers of women enter their reproductive ages during the 1990s.

112. Population assistance programmes can play an important role in developing countries requesting these services. Contraceptive prevalence continues to rise in all developing countries; it has reached 70 per cent in East Asia, but only 17 per cent in Africa. Some 144 countries provide some form of support to family planning programmes and it is estimated that about 400 million births have been averted over the last 30 years. But just to attain the United Nations medium variant projection for the year 2000, an additional 186 million couples will have to be reached by family planning services by the turn of the century.

113. There is a greater consensus on the importance of lowering population growth. The report of the South Commission emphasized that actions to contain the rise in population cannot be postponed but must be taken now. The United Nations Population Fund (UNFPA) is encouraging donor countries to increase the percentage of ODA funds going to finance population activities from slightly over 1 per cent, which was the average for the 1980s, to 4 per cent by the end of the 1990s. However, the level of population financing has not improved yet.

114. Family planning is a necessary but not a sufficient condition for slowing population growth. Development has to occur as well; there is a strong inverse relationship between development and fertility. Human resource development, especially for women, is crucial. The education of a mother is estimated to be twice as effective as the education of a father in lowering infant and child mortality. Women's education is closely related to child health as an estimated three quarters of all health care in developing countries takes place at home, where women generally have the responsibility for their families' health and nutrition. Also, in the developing countries, women with seven or more years of schooling marry, on average, nearly four years later than women with no education.

115. Of the 960 million illiterate adults in the world, 640 million are women. In the developing countries, the female illiteracy rate was 45 per cent in 1990, compared with 25 per cent for males. The disparities vary. In Latin America and the Caribbean the literacy rate for females is gradually catching up with that for males. The female illiteracy rates in sub-Saharan Africa, North Africa and the Middle East, and southern Asia are above 60 per cent, while the rates for males vary between 35 and 41 per cent. If current trends continue, one female out of two will still be illiterate in these three regions by the year 2000.

116. Deaths of young children in developing countries account for a large share of all deaths, and children are the major target group in efforts to reduce overall mortality. In 1990 in developing countries 12.9 million children under the age of five died. The immediate causes of more than 60 per cent of those deaths are preventable diseases such as diarrhoea, measles, tetanus, whooping cough and pneumonia. One of the goals adopted by the World Summit for Children in 1990, and repeated in the Strategy, is a one-third reduction in under five death rates or a reduction to below 70 deaths per 1,000 births, whichever is less. Reducing infant and child mortality also reduces fertility.

117. The overall theme of the Conference on Population and Development in 1994 will be population, sustained growth and sustainable development.

118. The Strategy refers only in passing to international migration, and then largely as a consequence of conflicts and upheavals. However, international economic disparities are also contributing factors. Predicting trends in international migration is difficult, as it is greatly affected by unpredictable political, economic and social circumstances in both countries of origin and destination. But as the gap between the North and the South remains huge and increasing numbers of people in developing countries face diminishing opportunities in their own countries, the pressure for migration to the industrialized countries will increase.

D. Environment

119. The Strategy contains only broad guidelines concerning the environment. When it was adopted, the preparatory process for the United Nations Conference on Environment and Development had just begun and when the present report reaches the Economic and Social Council, the Earth Summit in Rio de Janeiro will just have been concluded.

120. Awareness of the environmental dimension has risen to a new degree as evidence continues to accumulate about the gravity of the potential threat posed by environmental degradation. The Earth Summit has generated considerable public interest world wide, creating new imperatives for Governments to demonstrate their commitment to sustainable development.

121. Many countries have prepared national environmental action plans, strategies or policies which reflect efforts to relate environmental management to sectoral and overall socio-economic development. The process of preparing national environmental action plans is increasingly eliciting participation of major interest groups, e.g., industry, consumer groups and the scientific community. Environmental institutions, departments and ministries are being set up or strengthened.

122. Environmental impact assessment is increasingly accepted as a useful tool, although such assessments have not yet achieved an adequate integration in project appraisal. In the developed countries the "polluter pays principle" is increasingly applied. However, the issue of comparative advantage plays an important role with regard to the application of this principle. Although regulation is still the main approach to environmental management, this is increasingly being supplemented by the use of economic instruments which introduce greater flexibility and reduce the costs of implementation.

123. While progress has been made in terms of legislation, policy measures and establishment of standards in environmental matters at national levels and in international cooperation, as yet little progress has been made in terms of actual improved environmental quality and natural resource conservation.

124. For countries whose economic growth directly depends on productivity of natural resources and exports of primary commodities, resource scarcity and degradation, population growth and widespread poverty, combined with high debt-service payments, unfavourable terms of trade, restricted access to export markets and meager foreign investments and financial flows, pose extraordinary challenges. Their environmental and development crisis is often compounded by civil strife, poor governance and large-scale migrations in the wake of drought, famine and political turmoil.

IV. THE LEAST DEVELOPED COUNTRIES

125. In 1991 five more countries were added to the list of least developed countries, bringing their total to 47. Only one least developed country was found to meet the criteria for eventual graduation from the list.

126. The world economy has not so far provided a favourable climate for the reactivation of growth in the least developed countries called for in the Programme of Action for the Least Developed Countries for the 1990s as adopted by the Second United Nations Conference on the Least Developed Countries in Paris in September 1990.

127. The growth of the least developed countries has been adversely affected by the slowdown of world economic growth, the deceleration of world trade and the decline in the real prices of major non-fuel commodities. Stagnation has continued. The total GDP of the least developed countries is estimated to have grown at no more than 1.4 per cent in 1991, compared to 3.4 per cent for the developing countries as a whole. Projections for 1992 show negative growth, largely because of the drought conditions in southern Africa and the Horn of Africa. This implies negligible or negative per capita growth rates for a large number of least developed countries.

128. Weather conditions continue to be a key factor in their economies. While 1990 was a particularly poor year for African least developed countries, in 1991 favourable weather brought a marginal improvement in overall economic conditions. The vagaries of weather returned in 1992 with drought in southern Africa and the Horn of Africa.

129. Many least developed countries are pursuing programmes of economic policy reform. Domestic currencies have been devalued, government spending is being trimmed and trade policy reforms have been initiated. Least developed countries have also taken steps to rationalize and increase the efficiency of the public sector, strengthen human and institutional capacities and promote private initiatives for development, including private enterprise and foreign investment.

130. However, the success of national policies in the least developed countries depends on strengthened partnership for their growth and development. The Programme of Action identifies three major areas for international support: external resource flows, debt relief and external trade. The flow of ODA to the least developed countries in the early 1990s only partially reflects the new commitments undertaken at the Paris Conference. Even if ODA were to increase significantly in line with these commitments, it would still not meet the external capital requirements of the least developed countries during the 1990s.

131. Significant debt-relief measures have been taken in favour of the least developed countries over the past few years. None the less, the debt burden of many least developed countries remains heavy.

V. ROLE OF THE UNITED NATIONS SYSTEM

132. The Strategy gives principal responsibilities for implementing the Strategy to countries themselves, both developing and developed. None the less, "great obligations fall ... on the system of international organizations to extend and fulfil their role in the promotion of development".

133. The principles and goals of the Strategy incorporate principles and goals already contained in the sectoral strategies, plans and priorities adopted by the governing bodies of many organizations in the United Nations system and reflected in the medium-term plans, programme budgets and other documents that guide their work. The Strategy recognizes the need to build on the agreements reached by a number of intergovernmental conferences.

134. Some of the goals and principles of the Strategy are broadly defined and involve many member organizations; it would be difficult to specify clear-cut implementation criteria for them. But most of the principles and goals also have specific subsidiary goals and objectives, which are mainly the responsibility of one or a few organizations in the United Nations system as reflected in their long-term strategies.

135. Most of the work of the United Nations system is in line with the Strategy. Thus the regular reporting to the governing bodies on the implementation of the organization's work to a great extent monitors and reviews implementation of the Strategy. Some organizations already have established an extensive monitoring and review process related to their long-term strategies.

136. Use should be made as much as possible of the existing machinery of United Nations agencies rather than of new monitoring mechanisms. For example, the implementation of the hunger alleviation goals spelt out in the Strategy is an integral part of the World Food Council's mandate and is regularly reviewed during its annual ministerial sessions. The monitoring of the goals for children recommended by the World Summit on Children and reflected in the Strategy is an integral part of the United Nations Children's Fund mandate.

137. Within the existing system, the need for cooperation and coordination has been recognized, and there are mechanisms for coordination. Coordination should not mean bureaucratic stifling of new initiatives; the main challenge is to get on with the technical collaboration that is called for, while minimizing the bureaucratic overhead.

Notes

1/ For a fuller account, see World Economic Survey 1992 (United Nations publication, Sales No. E.92.II.C.1). The analysis of external debt and external development finance is also largely based on the Survey.