



SECOND COMMITTEE
3rd meeting
held on
Monday, 5 October 1987
at 3 p.m.
New York

SUMMARY RECORD OF THE 3rd MEETING

Chairman: Mr. OUDOVENKO (Ukrainian Soviet Socialist Republic)

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GENERAL DEBATE

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The meeting was called to order at 3 p.m.

GENERAL DEBATE

1. Before giving the floor to the Director-General for Development and International Economic Co-operation, the CHAIRMAN said that the Second Committee's general debate was getting under way at a time that could be considered historic, since it afforded an opportunity to conclude a disarmament agreement to reverse the arms race, thereby freeing valuable resources that could be used to bring about the economic development of all countries and to solve the many all-encompassing problems facing mankind in the economic sphere, such as energy, ecology, food, commodities, etc. Such a historic event would also help to eliminate the disparities between developing and developed countries and would ensure international economic and political stability.
2. The international economic situation was cause for concern, given the financial crisis affecting the majority of the developing countries, which were saddled with an external debt burden totalling billions of dollars. The market-economy countries were trying to co-ordinate their economic policies in order to correct trade imbalances. The socialist countries, while endeavouring to restructure their economic machinery, were looking for ways to intensify their mutual co-operation and participate more actively in the international division of labour. To solve the serious problems facing the developing countries, the entire international community must make a co-ordinated effort to establish a fairer division of labour and eliminate trade barriers, while taking into account the legitimate interests of all countries.
3. He quoted remarks made by the Secretary-General of the United Nations during the latter's most recent visit to the Ukrainian SSR and recent statements by the General Secretary of the Central Committee of the Communist Party of the Soviet Union, Mr. Gorbachev, on the occasion of the forty-second session of the United Nations General Assembly; he drew attention also to the highly interdependent nature of the problems affecting individual countries, which rendered the search for partial or local solutions fruitless and made necessary the establishment of effective mechanisms that would allow the international community to harmonize the often contradictory, yet legitimate, interests of its members.
4. Acceleration of world economic growth required the contribution of all countries, and it was in their interest that that process should be predictable. The United Nations, and the Second Committee in particular, constituted the appropriate forum for studying the causes of international economic instability and adopting solutions that would help to speed up economic development, maintain the ecological balance and stabilize international trade. The results of the seventh session of UNCTAD were encouraging in that respect: the Final Act of that session, adopted by consensus, defined a programme of action to ensure economic recovery, international co-operation and the development of trade; among its measures, the notion of establishing a Common Fund for Commodities was of particular interest to the developing countries. Mention should also be made of the final document of the

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recent International Conference on the Relationship between Disarmament and Development, which identified modes of international co-operation for transferring the vast resources currently allocated for arms production to peaceful activities.

5. He recalled also General Assembly resolution 41/213, in which the Assembly had decided to establish a Special Commission of the Economic and Social Council to carry out an in-depth study of the intergovernmental structure of the United Nations and its functions in the economic and social fields in order to make that United Nations body as efficient and effective as possible. The Second Committee should bear that objective in mind in its work by giving special consideration to the items assigned to it and by adopting action-oriented resolutions. The items in question included the report of the Economic and Social Council, development and international economic co-operation, operational activities for development, the external debt crisis and development, and special programmes of economic assistance, all of which were contained in document A/C.2/42/1.

6. In connection with the important item on external debt, he recalled that, at its forty-first session, the General Assembly had succeeded for the first time in adopting by consensus a resolution setting out a general framework for tackling that serious problem. The debate should be continued during the current session, as should the search for solutions to the problem, bearing in mind recent events and the need for a global focus that would take the interests of the developing countries and world economic stability into account.

7. He saw no need to draw attention to the importance of preserving the global environment for present and future generations. The relationship between man and nature was particularly evident in the serious situations created in recent years by industrial pollution in cities and whole regions. In that connection he noted that the Committee was to consider the report of the World Commission on Environment and Development, entitled "Our Common Future".

8. Mr. RIPERT (Director-General for Development and International Economic Co-operation) said that the world economic situation had been the subject of a thorough debate at the Economic and Social Council's second regular session of 1987 and especially at the seventh session of the United Nations Conference on Trade and Development, the Final Act of which, according to the Secretary-General, constituted the most comprehensive statement of the issues facing the world economy and of the policies and measures required to address them. He (Mr. Ripert) hoped that, even though its compromise formula did not fully satisfy everyone, the General Assembly would endorse it and would provide the political impetus necessary for its implementation.

9. Member States might also draw satisfaction from the results of the International Conference on Drug Abuse and Illicit Trafficking, held at Vienna, and the agreements reached recently in Canada on the ozone layer and the mining of sea-bed resources. Those successes demonstrated that, when the political will existed and specific and realistic objectives were set, the United Nations was an irreplaceable instrument for international co-operation.

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10. As the General Assembly met in 1987, there were tangible signs of improvement in international relations, especially between the two major Powers; an example was the serious prospect of agreements on disarmament, which in turn could have a positive effect on the international economic situation.

11. Certain positive elements aside, that situation was far from bright: the economies of the industrialized market-economy countries were still characterized by modest growth, high unemployment and significant imbalances in payments and other sectors. Sluggish growth in those countries and the anaemic pace of development in much of the developing world were two mutually reinforcing phenomena. Reactivation of the development process would strengthen the economies of the industrialized countries. In Washington, the market-economy countries had recently reaffirmed their intention to correct those imbalances and co-ordinate their policies. In that connection, the reliance on a system of indicators that would facilitate concerted action and the monitoring of individual countries' performance was a positive development.

12. With regard to international trade, both the seventh session of UNCTAD and the meetings of the International Monetary Fund and the World Bank had unanimously reaffirmed the need to halt protectionism. Constructive work had been begun in that area in the Uruguay Round, and encouraging statements had been made on trade in agricultural commodities. However, there was still a tendency to increase trade barriers, particularly against the developing countries. The GATT system must be strengthened and not bypassed through bilateral agreements; rather, it should be adapted to changing conditions, taking into account the interests of all parties.

13. The decisions on commodities adopted at the seventh session of UNCTAD suggested that the Common Fund might soon become operational, after a period of pessimism and scepticism. Despite recent increases in the prices of some commodities, there was no indication of a general or automatic improvement in the developing countries' terms of trade, which, as they had deteriorated, had cost those countries over \$90 billion in the preceding year. Those losses compounded the effects of the debt burden borne by those countries and were having adverse consequences for the United Nations programme for Africa.

14. As the Chairman of the World Bank and IMF Development Committee had just stated, the activation of the Common Fund would make it possible to rationalize the commodity situation and diversify the economies of developing countries. The process would be long and difficult, and there was a need to strengthen and expand the mechanisms designed to help the most vulnerable developing countries cope with unforeseen events, particularly fluctuations in earnings from commodities.

15. More than any other problem, the problem of debt called for a decisive answer. Its gravity, its role in dampening development, the deterioration in the social situation in a vast number of debtor countries, and the threat to the stability of the international financial system underscored the importance of the decision of the International Monetary Fund to carry out a comprehensive review of adjustment programmes. The international community was apparently beginning to

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recognize the social costs of adjustment in debtor countries and the need to pay greater attention to that problem, as had been pointed out by the Managing Director of the IMF in his statement to the Economic and Social Council. In recent years the United Nations had established a growth-oriented strategy within a context of structural reform and increased financial flows which had provided the framework for dealing with the debt problem. That strategy was still valid today in principle but its implementation had proved disappointing: growth in the industrialized countries had been very moderate, additional funding had not been forthcoming, and the adjustment burden had not been appreciably lightened for debtor countries, although most of them had carried out the relevant reforms. However, promising new approaches for dealing with the debt issue had emerged and there now seemed to be increased awareness that common responsibility was needed, and there was also a willingness to expand the range of solutions: lower interest rates, "securitization" of the debt at its market value, or debt-equity swaps.

16. The financial pressures on low-income countries, especially in Africa, were a source of particular concern. Although the short-term situation in many African countries had improved, there were no signs of a resumption of sustained development, and since last year the outlook in many African countries had worsened, as a result in particular of the external environment. Adjustment programmes were floundering, debt arrears were mounting and suspensions of debt payment were increasing.

17. Today there was a greater awareness that in the case of low-income countries the structural adjustment programmes had to be supplemented with measures to ease the debt burden, for the main creditors of the African countries were Governments and international financial institutions, and the amount owed by those countries was relatively low. Some action had been taken on bilateral debt, but additional steps were needed and they should be extended to the multilateral debt as well. A substantial increase in official aid flows was also needed.

18. In that connection, the Secretary-General would do his utmost to bring to the attention of Governments and international institutions the recommendations of the Advisory Group on Financial Flows to Africa.

19. The long-term problems, not only of Africa but of other regions as well, were intimately connected with the problems of environmental management. As was stated in the report of the World Commission on Environment and Development and in the report of the Governing Council of the United Nations Environment Programme (UNEP) on the Environment Perspective to the Year 2000 and Beyond, present patterns of growth and development were deleterious to the environment and to future generations.

20. Growth was not an obstacle to the protection of the environment but an essential requirement for solving the existing problems in that field. In short, immediate corrective action was needed at the national and international levels. As was stated in the report of the World Commission chaired by the Prime Minister of Norway, Dr. Brundtland, the present situation, characterized by a welter of

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policies which undermined the foundations of future growth and development in both developed and developing countries, was unsustainable; an integrated approach must be taken to the problems of the environment and development, and multilateral co-operation through the United Nations must be strengthened.

21. The Organization could be proud of its pivotal role in mobilizing international co-operation on environmental issues, for it had led to progress on several fronts, including that of transboundary pollution arising from nuclear-power accidents. More recently a historic agreement had been concluded on the protection of the ozone layer in the upper atmosphere. That agreement, the culmination of patient technical and diplomatic effort over a decade, showed clearly the vital role that the Organization could play whenever it was asked to take up a concrete issue of concern to all mankind.

22. However, environmental issues were not the only ones requiring long-term views and policies. The General Assembly must give attention also to the profound changes taking place in the underlying structures in the world economy, including economic, demographic and social changes, for this was an essential requirement for guiding action and assisting Governments to harmonize their structural policies in certain areas.

23. There was a widely shared perception that the industrial countries would grow more slowly in the remaining years of the century than in previous decades. It was arguable whether that development, whose fundamental causes were not quite clear, was inevitable, but, as was noted at the Interregional Consultation held recently in Vienna, that trend was affecting employment problems and the implementation of social policies in the industrialized countries and it was hardly likely to cease to influence those areas in the future. Moreover, as the integration of production, trade and finance made the world economy more interdependent, a prolonged period of sluggish growth in the most advanced countries would have inevitable repercussions on the rest of the world. The difficulties associated with phenomena which were eroding the capacity of Governments, even the most powerful ones, to influence key economic parameters were compounded by the increase in the number of potential poles of growth in the world. In the long run that latter factor might facilitate the regulation of world economic activity but there would be difficult problems in the transitional period, and the management of the interdependence of sovereign States was an unprecedented challenge for the international system and for the States themselves. Of course, States turned where possible to the market to cope with the situation, but it was no less certain that, as stated by the United States Secretary of the Treasury at the latest World Bank/IMF meeting, "we, as representatives of the global community, have similar needs and responsibilities that transcend our particular borders and require a strengthened framework for co-operation for the good of us all".

24. Important changes were also taking place in the socialist countries and their desire for progressive integration in the world economy merited special attention. They had put forward the important concept of "international economic security", a topic taken up by the Secretary-General in one of the reports before the

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Committee. As the Minister for Foreign Affairs of the USSR had stated in the General Assembly: "In the economic field, a comprehensive system of security must seek to promote co-operation that will be free of confrontation and will cover the entire network of international economic relations".

25. The implications of those developments in the industrialized countries would have profound repercussions in the developing countries. The latter countries were facing serious immediate difficulties, but there was an equally important need for them to pay attention to long-term prospects. Of course, the population of the developing countries would continue to grow in the decades ahead, with new pressures on resources, which would have to be harnessed and used in ways that took account of the need not only to improve living standards but also to avoid damage to natural resources and the environment. Technological development was opening up new horizons for growth, but new problems of adjustment as well. The developing countries would not be able to cope with these problems unless they redoubled their development efforts. Many of them should increase their domestic savings and rationalize their investments. In that connection he welcomed the initiatives of the developing countries in strengthening their capacity to adapt to change through a better utilization of their human resources and in enhancing their mutual co-operation, which was crucial in that context.

26. With the improvements in education and information, men and women everywhere now wanted to rely on themselves to a greater extent and depend less on society. Accordingly, they also wanted to be given more room for initiative and personal creativity. In many parts of the world a reassessment of the relative roles of the public and private sectors was under way.

27. There was not full agreement on all those issues and some of them were very controversial. However, that should not delay decisions on a number of current problems or the search for agreed solutions to some long-range problems. The trends to which he had referred offered the Organization a challenge and an opportunity, and its ability to help Member States to solve mankind's problems would depend on its ability to adapt.

28. Mr. AHMED (Under-Secretary-General for International Economic and Social Affairs) said that the world economy had experienced slow growth in the past two years and that pattern was expected to continue in the coming few years, with world output growing at a rate of 2.5 to 3.5 per cent. In 1987 and 1988, growth in developed market-economy countries considered as a group was expected to continue at about the rate achieved in 1986, or about 2.7 per cent. Although in Japan growth was expected to be above the average, that would not counteract the lack-lustre performance of most Western European economies. The massive trade deficit of the United States, whose economy was entering its sixth consecutive year of expansion, would narrow in 1988, but it would continue to be a major unsettling factor in the world economy.

29. The economic performance of the group had been consistently mediocre, especially in Western Europe, which continued to experience unacceptable levels of

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unemployment and trade imbalances which posed a continuing threat to future growth. Moreover, the region had not provided adequate reinforcement - in terms of trade or financial flows - to the efforts of the developing countries to revive their economies.

30. In the Soviet Union and other centrally planned economies of Eastern Europe, the processes of restructuring and institutional readjustment were well under way, and those countries were expected to grow at a steady rate of 4 per cent. In view of their desire to participate more actively in the world economy, those countries could play an increasingly stabilizing role and make a growing contribution to the expansion of the world economy.

31. Overall, the gross national product (GNP) in developing countries could grow at a rate of 3 to 4 per cent, or slightly above the world average, in the coming years. However, in the light of the population growth and current trends and policies, there was little prospect of any significant improvement in living standards in most of the developing countries for the remainder of the decade.

32. There was considerable diversity among developing countries. The performance of the economies of a few States of the Asian and Pacific region had been good, while the recovery of oil prices improved the prospects of the oil-exporting countries for the years ahead.

33. In Latin America, the burden of debt continued to be overwhelming. The Secretariat's projections showed that real per capita income was likely to stagnate over the next two years. Finally, the cost of readjustment programmes undertaken by those countries had been very high.

34. However, the world's worst-hit countries had been the small African countries. In 1988, real per capita income was expected to fall in Africa. The United Nations Conference on the Least Developed Countries, to be held in 1990, would review the implementation of the Substantial New Programme of Action for the 1980s for the Least Developed Countries.

35. The recent rise in some commodity prices would afford a respite to some developing countries, but for the majority of those countries, notably in Africa, the main problem continued to be that of indebtedness. Calculations made by the Secretariat indicated that levels of indebtedness should decline over the next few years, but debt would continue to be an intolerable burden on many countries. A number of reports prepared by the Department of International Economic and Social Affairs for consideration by the Second Committee dealt with those issues, which included the debt situation, the international monetary situation and the net transfer of resources from developing to developed countries.

36. The broad conclusions of those reports could be summarized in the following terms: the debt problem of the developing countries as a group had continued; such indebtedness continued to have deleterious effects on the development of the developing countries; and very little had been done to deal with the problem.

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37. The debt problem could be dealt with only if the need for genuine international co-operation in that field was recognized. He hoped that the Committee would advance the work already begun by the General Assembly, the seventh session of the United Nations Conference on Trade and Development (UNCTAD), the International Monetary Fund (IMF) and the World Bank.

38. Although there was no panacea to the debt problem, the time had to create a framework to direct the efforts which the financial community had already begun in that field and which were beginning to yield some results, such as debt-equity swaps, the development of a limited secondary market in commercial debt, various proposals for the "securitization" of debt and the recognition by the largest commercial lenders that they could no longer expect all outstanding debt to be serviced fully. It was necessary to organize such initiatives so that they benefited all parties concerned: the debtors through a reduction in the burden of debt, and the creditors through a more assured, if smaller, flow of payments. At a time when many developing countries found it difficult to export to developed markets, trilateral arrangements could be developed whereby the more advanced debtor countries could liquidate their debts to their creditor banks by payments from exports of industrial products to other developing countries.

39. The magnitude and complexity of the problem called for a number of simultaneous and wide-ranging measures. For example, in the case of the low-income countries, in which the market-oriented measures which he had described were largely inapplicable, more far-reaching and generalized measures were necessary. He hoped that the work of the Secretary-General's Advisory Group on Financial Flows to Africa would yield positive results. As the Director-General had indicated in his remarks, it was necessary to re-examine the assumptions on which official lending, particularly by multilateral institutions, had been based, if those countries were to extricate themselves from their very serious predicament.

40. Notwithstanding the need for a differentiated approach, there were some common elements to any programme aimed at mitigating the problem of debt. In the first place, the debtor countries themselves must pursue appropriate policies, although it should be recognized and taken into account in negotiations that, once the adjustment policies had been agreed upon and applied, unforeseen factors could arise which could change the situation. Secondly, indebtedness was not a short-term financial problem but required a medium- and long-term approach which took into account the development needs and potential of the debtor countries. It was therefore necessary to increase the resources of the World Bank and IMF, and he hoped that agreements could soon be reached in that regard.

41. A more hospitable economic and trade environment was essential. In that respect, he expressed concern at the rise of new and insidious forms of protectionism which, unless firm measures were adopted in the Uruguay Round, threatened to undermine the basic GATT principles of transparency and free trade. An even more significant constraint had been the inadequate and, for many countries, negative net transfer of resources to the developing world. A significant increase in bilateral official development assistance, in particular to

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low-income countries, was necessary, and the proposed international conference on money and finance could play a very important role in that area. In the interim, however, certain priority issues, such as the need for greater exchange-rate stability and greater symmetry in the adjustment process between deficit and surplus countries, must be tackled immediately. Such issues called for close and systematic policy co-ordination among the major industrial countries. With regard to exchange-rate stability, the experience of the European Monetary System with target zones should also be studied.

42. The pressing problems of external debt and financial flows should not distract attention from the longer-term problems of development in the developing countries. In many of them, crucial investments in sectors like health and education had fallen victim to austerity and import strangulation; those sectors were of great importance for future growth.

43. The time had come to draw lessons from the experience of the past. It should be recalled that the present debt crisis stemmed from developments in the 1970s, when vast amounts of funds had been recycled to the capital-importing developing countries mostly as short-term commercial loans by private banks, which had made handsome profits from the transactions and had not taken into account those countries' long-term development needs. Neither had the disruptions to be caused by the escalation in inflation and interest rates and the global recession of 1982 been foreseen at that time. While those might have been the factors contributing to the debt crisis, the underlying causes of the problem could be traced to more basic contradictions between the type of financing flowing to developing countries and the purposes for which it was used. The initial phases of development in the industrialized countries and the experience of the past decade showed that the developing countries needed longer-term injections of capital tailored to their development objectives and potential. The rapid integration of world capital and financial markets made possible on a global scale by technological advances could open up new opportunities for the developing countries to acquire capital, once suitable mechanisms could be established. In that respect, multilateral financial institutions could play a key role as catalysts and intermediaries.

44. It was also time to consider priorities and goals for the 1990s and ways of stepping up international co-operation to achieve them. The international community would be greatly helped in that task by the report to be presented by the Secretary-General to the General Assembly at its forty-third session on economic and social perspectives up to the year 2000. Closely related to the need for a longer-term view was the concept of international economic security, on which subject the Secretary-General had prepared a report currently before the Committee, in which practical steps were suggested to enhance the security and stability of the international economic system. Among the ideas needing further study was the possibility of establishing a multilateral capacity to provide early warning of potential problem-areas and suggest preventive measures, and the need to introduce amendments to the Bretton Woods institutions and GATT to enable them to play a more stabilizing role in international economic relations. The results of the United Nations Conference on the Relationship between Disarmament and Development were also relevant in that context.

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45. Another threat posed to the economic security of all nations was the breakdown of the ecosystem, arising as much from poverty in the developing world as from over-exploitation of natural resources in the industrialized countries. In view of the transborder threats posed by such phenomena as acid rain, the depletion of the ozone layer, the depletion of forests, soil degradation and desertification, in the interest of environmentally sound development, concerted action by all countries was needed in order to adopt policies for what had been termed by the Brundtland Commission as "sustainable development". That concept brought together the relationships between population, resources, environment and development. The Department of International Economic and Social Affairs had set up a task force to examine how the environmental dimension could be integrated into the development research undertaken within the Department.

46. As market economies would experience slow growth in the years ahead, the developing countries would need to increase their share in world markets, through better use of new technologies and greater value added to their exports. They would also have to increase trade and economic co-operation among themselves and make greater use of their national resources. He was pleased to note that mobilization of savings was receiving growing support both from developing and from developed countries. An equally important factor of development was human resources, the returns on which had been shown to be, in the long term, at least as high as physical investment. The recent discussions at the meetings of the Administrative Committee on Co-ordination and the Committee for Programme and Co-ordination had helped to focus attention on the subject. At its 1987 session, the Committee for Development Planning had decided that human resources development would be one of the subjects that it would consider in the future. The Department of International Economic and Social Affairs would provide the necessary support in that regard.

47. Another subject that had been receiving increasing attention was the role of indigenous entrepreneurs in economic development. Entrepreneurial skills should be promoted through an adequate institutional, financial and legal environment, together with suitable facilities for training and research. In accordance with General Assembly resolution 41/182, the Secretariat had continued to promote the exchange of information and experiences in that sphere between developing countries. The debates that had taken place on the subject at the summer session of the Economic and Social Council would lead to deeper understanding of the issues involved.

48. Mr. DIETZE (German Democratic Republic) said that the time had come to strike a balance and adopt decisions on how to promote international economic prosperity in the future. He listed the results that should be expected from the current session: that the positive impulse emanating from the agreement between the Soviet Union and the United States on the removal of their intermediate-range missiles would lead to a climate of fruitful negotiations in the economic sphere; that practical steps would be taken to solve urgent problems in the economic, monetary, financial and commercial spheres and to find a just solution to the debt problem; and that an understanding would be reached regarding the broad outlines for the

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further restructuring of democratic international economic relations; that common aims would be outlined for negotiations leading to mutually beneficial economic co-operation; and that the road would be cleared for starting various rounds of negotiations during which unanimous decisions on economic progress could be adopted.

49. It was alarming that, despite the results achieved so far, it had still not been possible to eliminate the enormous imbalance in international economic relations. The United Nations World Economic Survey 1987 had stated that the growth rates of the capitalist countries were stagnating. Phenomena such as the high trade-balance deficit, massive national debts and fluctuations in the rate of exchange of the dollar were not exactly conducive to economic prosperity. The economic situation of the developing countries had deteriorated still further in recent months. The same could be said of environmental protection, as outlined in the report of the Executive Director of UNEP on the environmental perspective to the year 2000 and beyond, and the report of the World Commission on Environment and Development entitled "Our Common Future". Hence, all countries - West, East and South - should formulate new ways of developing international economic co-operation and achieving the international economic security advocated by the German Democratic Republic and other countries. The Secretary-General's latest report, as well as the proposals contained in the statement by the Ministers for Foreign Affairs of the Group of 77 on a comprehensive international economic system and the draft resolution submitted to the Economic and Social Council by the socialist countries (E/1987/L.44) constituted examples of major steps towards that goal. To realize that idea, it was appropriate to propose the establishment of a group of experts.

50. The International Conference on the Relationship between Disarmament and Development, which had recently completed its work, had stressed the importance of non-military threats to security. It was to be hoped that as part of the follow-up to the Conference, there would be an analysis of the socio-economic consequences of military expenditure.

51. There were certainly other urgent tasks, but none as urgent as that of finding a solution to the problem of the developing countries' foreign indebtedness. Those countries' interests should therefore be taken into account, together with the need to ensure the stable development of the world economy, as emphasized at the Berlin summit of the States parties to the Warsaw Treaty (A/42/354).

52. The normalization of international monetary and financial relations was no less important. Declarations of intent must at long last lead to real steps, and the fruitless quarrels about questions of competence between the General Assembly and international financial organizations should be given up. The report on that matter submitted by the Secretary-General in accordance with a decision by the General Assembly at its forty-first session showed the more or less common understanding among all countries that the international monetary and financial system needed to be reformed urgently. Differing approaches on the matter should not be allowed to block the preparatory work for a conference on the subject within the framework of the United Nations or in another representative forum. His

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country supported the proposals submitted by the non-aligned countries at their eighth summit meeting at Harare and by the Ministers for Foreign Affairs of the Group of 77 at their eleventh annual meeting, held the week before.

53. It was necessary to improve considerably the international trade situation, which was characterized by rampant protectionism, the sealing off of markets and the imposition of commercial obstacles, and was doing serious damage to the developing countries. His country welcomed the efforts that had been made at the latest session of the United Nations Conference on Trade and Development (UNCTAD VII) to restore confidence in international trade relations, promote dialogue, multilateral negotiations and co-operation, and strengthen the role of UNCTAD in developing economic co-operation and international trade. The forthcoming sessions of the Trade and Development Board and the current session of the General Assembly would show to what extent Member States were ready for concrete decisions.

54. It was also necessary to intensify scientific and technological co-operation, as the future of economic development depended on it. Already two thirds of all economic co-operation projects were connected with science and technology, but it was possible to ask whether full advantage was being taken of the possibilities offered by a universal system such as the United Nations, and whether United Nations organs and agencies were keeping up with ongoing scientific and technological developments. It was clear that more efficiency was needed in that area, and measures should be adopted at the current session along the lines laid down by Economic and Social Council resolution 1987/79 on scientific and technological co-operation.

55. His country had increased its aid to the developing countries by 12.1 per cent compared with 1985. In 1986 the amount had totalled 2,242.9 million marks, which was 0.89 per cent of national income in that year. Half of that assistance had been given to Africa, in implementation of the United Nations Programme of Action for African Economic Recovery and Development, adopted at the thirteenth special session of the General Assembly.

56. The Economic Commission for Europe (ECE) was an example of fruitful economic co-operation, particularly the efforts of Member States to increase its effectiveness as an instrument for East-West co-operation. That was one more reason why his country advocated that the follow-up meeting to the Conference on Security and Co-operation in Europe should proceed to negotiations and adopt resolutions regarding all areas covered in the Helsinki Final Act.

57. The current restructuring of the United Nations should engender an Organization able to meet the challenges of the final years of the twentieth century, one in which not only views were exchanged but significant decisions were made. His Government had submitted specific proposals to that end in Geneva and New York. The special session of ECE to be held in Geneva at the beginning of November concerning the Commission's contribution to the implementation of General Assembly resolution 41/213 would also contribute to that end.

58. Mr. KORN (United States of America) said that in 1986 the Second Committee had exemplified the best qualities of the United Nations system: creative initiatives and meaningful proposals had been presented, debate had been well-focused and orderly, meetings had been held on time, resolutions had been kept to a minimum and consensus had been reached on many important issues. His delegation pledged its co-operation in ensuring that the Committee was a model of efficiency, judgement and productivity which the entire United Nations system could emulate.

59. He intended to focus his remarks on the basic principles which could guide the Committee in its work and in looking at the future of the world economy, and on the basic conditions - the economic rights of individuals - which were necessary for prosperity.

60. As his delegation had already had occasion to say at the annual meetings of international economic bodies and at the seventh session of the United Nations Conference on Trade and Development, in spite of the warnings of many nations of a "crisis" in the world economy and in the development process, the United States believed that the current international environment was one of the most favourable in history in terms of support for development efforts based on sound economic policies. The facts were the following: the world economy was now in its fifth consecutive year of positive growth; economic expansion in the industrialized countries had been growing at a steady, moderate rate of 2.5 to 2.75 per cent in recent years; the economies of the developing countries had grown at even more impressive rates: 4 per cent in 1986, according to IMF and the World Bank projected growth rates at the same high levels for 1987. The low average rate of inflation in 1986 (2.3 per cent in the industrialized countries, the lowest in 20 years) would contribute to the process of positive growth, and it was expected that inflation rates would remain low in the industrialized countries in 1987 and 1988. Non-OPEC developing countries had also experienced a sharp drop in inflation rates in 1986. Sustained economic growth and the decline in inflation rates had produced conditions in the developed countries which permitted an expansion in employment opportunities. The employment growth rate had increased to 1.6 per cent in 1986, as compared with 1.4 per cent in 1985. World economic growth had also sparked even stronger growth in world trade. IMF figures indicated that the growth in world trade volume had accelerated from a respectable 3 per cent in 1985 to nearly 5 per cent in 1986. The commitment of all countries to maintain and expand the openness of the world trading system had been reconfirmed through participation in the Uruguay Round of multilateral trade negotiations. Exchange-rate relationships among the major currencies appeared to be stabilizing, thanks to the policies of the major industrialized countries, and progress had been made in reducing trade and current-account imbalances.

61. Those factors created a solid foundation for development. Admittedly, problems still existed, and some were persistent: commodity prices were tending downward, and debt-service obligations remained a difficulty for some developing countries. However, those difficulties must be viewed against the backdrop of the positive international environment, and did not constitute a "crisis" in development. His delegation looked forward to a further refining of the international debate on those specific economic issues.

(Mr. Korn, United States)

62. The remainder of his remarks would be devoted to four fundamental themes which might be useful in guiding the Second Committee's work for the current year. They were relevant to current economic conditions and they derived from one basic ideal: individual freedom.

63. The founding fathers of the United States had known that without economic freedom there could be no political freedom. The rallying cry of "no taxation without representation" reflected that unbreakable bond between economic and political liberties. The United States had been founded by people seeking to support themselves by their own labour, treasuring the right to work and to dispose of their earnings as they saw fit, and willing to take economic risks and to fight for the individual freedoms that would make those things possible.

64. When the United Nations had been founded, the Second Committee had been assigned to address global economic issues. Its agenda included the international financial system, the international trading system, and global commodity markets. The representatives of Governments tended to rely on national policies and intergovernmental agreements as the tools to shape those systems. They constantly sought that elusive blend of policies and regulations which would produce the desired international environment. However, in the effort to fine-tune international rules and regulations, one essential consideration had been ignored: all economic systems were made up of individuals, not only nations but men and women seeking to provide for their families. In the search for solutions to the problems facing international economic systems, that basic component common to all of them should not be forgotten. To make systems work better, people must be able to work better. In his delegation's view, people worked best when they were free.

65. There were four fundamental freedoms that were most relevant in economic relations. First, freedom to work: men and women had the right to pursue their livelihood in their own way, free from excessive government regulation and interference. That freedom was associated with economic risks and was sharply different from the obligation to work as it was understood elsewhere, where guaranteed employment usually meant assigned or directed employment. Decisions were taken away from the worker and individual initiative was crushed. Secondly, freedom to enjoy the fruits of one's labour: men and women did not only have the right to earn their own keep, they also had the right to keep what they earned. Excessive government taxation could rob them of those earnings, placing a crippling constraint on individual initiative. While there were some areas which were undeniably the responsibility of governments, his delegation believed that any economic activities which had been assumed by the public sector in some countries could be more efficiently handled by the private sector. Thirdly, freedom to own and control one's property: the right to private property had been reaffirmed in 1986 by the Third Committee (resolution 41/132). Lastly, freedom to participate in a free market: each person had the right to contract freely for goods and services and to achieve his or her full potential without government constraint. Free markets should allow the most efficient allocation of productive resources, both human and financial. His delegation would be putting forward a draft proposal at the current session which would highlight the need for creating conditions to

(Mr. Korn, United States)

promote capital formation, the accumulation of which helped promote freedom of individual initiative, and, thus, economic growth and an enhanced quality of life.

66. His Government did not intend to find fault with the vital role that governments must play at both national and international levels, which was to safeguard the individual freedoms he had mentioned. His delegation hoped that governments would work to expand individual freedoms rather than constrain them and that those same principles would be borne in mind as governments gathered in the Second Committee.

67. Mr. RUTANEN (Finland), speaking on behalf of the five Nordic countries, said that the prospects for the world economy remained uncertain. Growth rates were declining in both developed and many developing countries, global output and trade volumes were falling off and high debt-service payments, depressed levels of export earnings, low commodity prices, looming protectionism, high real interest rates and shrinking inflows of external resources continued to have serious adverse effects on the development prospects of developing countries, particularly the poorest ones. The massive trade imbalances, mounting trade frictions and deteriorating external financial position of many developing countries had added to the fears that economic performance might weaken in 1987 and 1988.

68. Over the medium and longer term, there might, however, be reason for cautious optimism. The modest overall growth in the developed countries was continuing for the fifth consecutive year, although economic growth remained unevenly distributed, particularly among the developing countries. Adjustments in exchange rate imbalances had brought currencies more in line with the underlying economic fundamentals. Inflation, although showing an increasing tendency to rise again, was at its lowest levels since the 1960s. On the other hand, increases in real interest rates had had an adverse effect on developing countries.

69. The following conclusions could be drawn from the above picture: the international economic environment must be improved in order to ensure a more stable and sustainable basis for economic growth. More efficient policy adjustments and co-ordination were needed in and among the industrialized countries with a view to adopting measures that would contribute to the revival of non-inflationary growth. The envisaged economic growth of around 2.5 per cent in the developed countries in 1987 was not enough to sustain modest growth rates in the developing countries or bring down the high rates of unemployment in many developed countries. Growth-oriented adjustment policies were a pre-condition for economic recovery in the developing countries. The Nordic countries recognized that many of the poorest countries had made vigorous efforts to implement adjustment policies, whose social aspects and consequences must be taken into consideration and alleviated by the international community. The correction of existing major trade imbalances was also needed in industrialized countries. Protectionist tendencies must be reversed. Increased co-ordination of policies should also be pursued in multilateral trade and monetary fora. In that context, his delegation wished to refer to the ongoing processes of the GATT round and UNCTAD and the recent meeting of IMF and the World Bank.

(Mr. Rutanen, Finland)

70. The debt crisis of the developing countries continued, and the current debt strategy therefore needed to be improved and strengthened. One necessary prerequisite for that was increased growth in both developed and developing countries. The trend of decreasing financial flows to the developing countries had to be reversed. Both private and multilateral flows must be increased, especially concessional flows to the poorest debtor countries. Achievement of the 0.7 per cent target for ODA and 0.15 per cent for ODA to the least developed countries was of utmost importance.

71. The Nordic countries were particularly concerned about the debt situation and the overall economic situation in sub-Saharan Africa. They noted with satisfaction that the international community was already considering concrete proposals for additional assistance and debt-relief for low-income countries. There was an urgent need for the international community to respond more favourably to the needs of those countries in order to fulfil the mutual commitments under the United Nations Programme of Action for African Economic Recovery and Development 1986-1990. All the Nordic countries had either converted or would convert their remaining bilateral development credits to the poorest developing countries into grants and hoped that other donors would adopt similar measures. In addition, some of the Nordic countries had already appropriated or were considering appropriating additional resources for international multilateral debt-relief programmes.

72. The Nordic countries welcomed the positive outcome of the seventh session of UNCTAD. In view of the negative trends in the world economy, it was important that UNCTAD VII had been able to reach a meeting of minds in the form of a consolidated Final Act. Although that document could not please all participants, for instance the LLDCs, in every detail, the Nordic countries were encouraged by the constructive spirit of the discussions. The Conference had passed an important test and had been able to contribute to the North-South dialogue and to the credibility of UNCTAD. The Nordic countries remained fully committed to the implementation of the Final Act and pledged their active support to its follow-up measures.

73. Aware that the tasks of the United Nations were more demanding than ever, the Nordic countries supported all efforts to strengthen the United Nations system, including the work of the Special Commission on the In-Depth Study of the United Nations Intergovernmental Structure and Functions in the Economic and Social Fields.

74. At the current stage, it was premature to predict the results of the work of the Special Commission. However, the Nordic countries had noted the need to strengthen the policy-guiding role of the General Assembly, to review the working methods of the Second and Third Committees, to clarify the functions of the Economic and Social Council in economic and social questions, to study reporting procedures and to avoid repetitious general discussions.

75. The Nordic countries had noted with interest the proposal made by the Secretary-General that the Economic and Social Council should meet at ministerial level. That suggestion merited further consideration.

(Mr. Rutanen, Finland)

76. Lastly, he wished to mention an issue raised by the Prime Minister of Norway, Mrs. Brundtland, in the General Assembly, namely the interdependence between environmental management and economic and social development. The report of the World Commission on Environment and Development spelled out the urgent need to deal with those problems in an integrated manner, both nationally and internationally. The report also conveyed the concept of "sustainable development" which the Nordic countries believed should be one of the guiding principles of the United Nations system, other international organizations and governments.

77. Mr. NOOR (Indonesia) said that the reports before the Committee confirmed that the world economy continued to be characterized by serious imbalances, dislocations and stress and by the many different phenomena which hampered growth and development. What was more, as the Final Act of the seventh session of UNCTAD indicated, the developing countries, whose structural characteristics left them vulnerable to change and external shocks, had been the hardest hit. As a result, those countries had been unable to consolidate and build on their earlier economic and social progress, and the gap between North and South had widened.

78. In the current period of eroding international co-operation for development, the developing countries were invariably being advised to confront the situation through adjustment policies. For various reasons, most developing countries had implemented such policies through fiscal austerity measures, including the elimination of government subsidies, mobilization of domestic resources, national currency reform and deregulation. However, as was evident in the case of Indonesia, there were many reasons for doubting the ability of those adjustment measures to solve the problem.

79. As a result of its worsening external environment, Indonesia had been forced to take a series of adjustment measures over the past few years. Such measures had restored fiscal stability and controlled inflation, but the price had been high: slower growth rates of output and income, increased unemployment and worsening of the plight of the most vulnerable population groups.

80. To boost non-oil exports, Indonesia's currency had been devalued and major trade and industrial policy reforms had been undertaken. Those measures had helped enhance Indonesia's competitiveness, but that improvement had been undermined by protectionist measures in other countries. The gains achieved in increasing the productivity of the commodities sector had been neutralized by the depression of commodity prices and, in some cases, by the denial of access to markets. Lastly, to compensate for the sharp cut in external resources, Indonesia had intensified the mobilization of its own domestic resources, especially through a series of tax reforms. The escalation of its debt-servicing burden had offset the effects of that policy, however.

81. In the current era of growing interdependence, the responsible adjustment efforts made by the developing countries must be met with appropriate international measures.

(Mr. Noor, Indonesia)

82. In trade, he trusted that the developed countries would soon fulfil their commitment to reduce and eliminate protectionist measures and that the tendency towards serious erosion of differential and most-favoured-nation treatment, without reciprocity, for the developing countries would be reversed and that, in the Uruguay Round, priority would be given to the liberalization of trade in tropical and agricultural products and those based on natural resources. With regard to commodities, it was important that, following the seventh session of UNCTAD, the speedy entry into force of the Common Fund for Commodities should be encouraged and that wide-ranging consultations should be held concerning commodities for which no international agreements yet existed.

83. It was urgent to promote external resource flows for development: the internationally agreed targets for ODA must be attained and the IMF proposal to triple the resources of the structural adjustment service must be rapidly implemented. The resources available to the Fund and the World Bank must be increased and ratification of the Eighth Replenishment of IDA accelerated, even though the level of pledges had been disappointing. In the area of indebtedness, it was paramount that measures based on General Assembly resolution 41/202 and the consensus reached at the seventh session of UNCTAD be adopted. He also trusted that the Programme of Action for African Economic Recovery and Development, 1986-1990 would be speedily implemented.

84. Beyond those urgent measures, it was desirable to promote longer-term structural reforms which, in trade, would include the pursuit of a universal, non-discriminatory, comprehensive, stable and predictable trading system. The integrated programme for commodities, the validity of which had been recognized by UNCTAD VII, must be strengthened, and diversification in commodity-dependent countries promoted. The convening of the proposed international conference on money and finance could play a positive role in solving the problems affecting long-term development.

85. In an interdependent and interrelated world, international co-operation and multilateralism must prevail over passive reliance on market forces.

86. Mr. GILL (Latin American Economic System) said that studies carried out by the Permanent Secretariat of the Latin American Economic System (SELA) showed that the macro-economic environment continued to have extremely negative repercussions on the economic, social and political situation of developing countries, particularly Latin American and Caribbean countries.

87. The slow world economic growth throughout the current decade was undoubtedly linked to the policies implemented by the industrialized countries after the second oil crisis to control inflation and, with the exception of the United States, reduce budgetary imbalances. That had unquestionably succeeded in controlling inflationary pressures, but at the cost of an unprecedented increase in real interest rates, high unemployment levels and, during 1981-1982, a sharp economic recession the effects of which were still being felt.

(Mr. Gill)

88. That situation had had negative consequences for the evolution of trade flows and particularly for commodity markets, and had also adversely affected international capital markets. The serious external crisis faced since 1982 by most developing countries had given rise to a drastic process of adjustment which had reinforced the trend towards stagnation in the world economy, and the accumulation of extensive external imbalances among the industrialized countries themselves had accentuated the instability of the situation.

89. Recent economic trends provided even less comfort. In 1986, real growth rates in industrialized countries had decreased, as a result primarily of a deterioration in their net exports, and slow growth in output had influenced the volume of world trade, the growth of which had been very small in 1986. The terms of trade of the developing countries had deteriorated by over 16 per cent.

90. Those adverse macro-economic trends represented an unbearable burden for the economies of Latin America and the Caribbean, which were already overwhelmed by debt servicing. During 1986, those economies had experienced a slight increase in their growth rates but an abrupt deterioration in their external position, since the region's trade surplus had contracted by 45 per cent as a consequence of a 15 per cent decline in the value of exports, prices for which, especially for oil, had deteriorated considerably.

91. In 1986 the outflow of financial resources from Latin America and the Caribbean had declined by \$US 10 billion as a result of an increase in net capital income and a decrease in net payments on profits and interest. Consequently, although the situation showed some improvement with respect to 1985, the net outflow of resources from the region had been as high as \$US 22.1 billion in 1986, equivalent to 23.2 per cent of its exports of goods and services. Thus, between 1982 and 1986, the cumulative financial net transfer abroad had amounted to approximately \$US 132 billion, equal to one third of the total accumulated debt of the Latin American and Caribbean countries at the end of 1986.

92. Given the benefit of their natural and human resources, the Latin American and Caribbean countries had been approaching a position of economic take-off when the global economic crisis had intervened, arresting the region's development and even occasioning economic retrogression.

93. In a situation characterized by a high degree of interdependence, such as existed at present, the responsibility for solving economic and social problems devolved upon all, but particularly upon the wealthiest, most influential, and most powerful countries. It ought not to be the case, for instance, that the policies of certain industrialized countries, under the pretext of pragmatism, continued to undermine basic principles of economic development, such as international co-operation and multilateralism.

94. At the Thirtieth Regular Meeting of the Latin American Council of the Latin American Economic System, held in Caracas the previous September, the foreign ministers, ministers and heads of delegations present had decided to

(Mr. Gill)

institutionalize a dialogue at the level of foreign ministers to study the international situation and its repercussions on Latin America and the Caribbean and to identify action to be taken to strengthen Latin American unity. Furthermore, the countries of that region had agreed to a statement to the effect that trade relations with the United States of America and, in particular, the more recent trade initiatives and measures, could have major implications for Latin American and Caribbean countries.

95. Reference was made to the fact that less than two and a half years after approving the Trade and Tariff Act of 1984, which had considerably worsened conditions for access of the region's exports to its main market, the United States Congress was reviewing a new body of trade legislation which was more restrictive and protectionist than current legislation. Several specific bills would have the effect of restricting imports of products significant to the region, while additional economic coercion measures were aimed at countries in Latin America and the Caribbean. Those trade bills contained provisions at variance with international commitments and obligations undertaken by the United States, particularly within GATT, including those concerning special and differential treatment for developing countries. The bills also placed emphasis on bilateralism and conditionality of access to that country's market to the detriment of the multilateral trading system and its guiding principles, especially that of immediate and unconditional most-favoured-nation treatment.

96. In that communiqué, the Latin American and Caribbean countries denounced the fact that the persistence of those legislative trends created grave uncertainty with regard to the General Agreement on Tariffs and Trade and other instruments of the multilateral trading system, and to the viability of the current multilateral trade negotiations. If the bills were adopted, they would violate standstill and roll-back commitments. That situation would have negative consequences for trade production, employment and finance in Latin American and Caribbean countries at a time when they needed to increase export earnings in order to generate the resources required for their economic and social development and to comply with their international obligations. That in turn would have very adverse consequences for the United States.

97. The Latin American and Caribbean countries were going through a difficult and complex phase. Nevertheless, they were profoundly optimistic, believing as they did that they could overcome those uncertain circumstances through consultation and co-operation at both the regional and at the international level within the multilateral framework of the United Nations. For that reason, they trusted that the Committee's meetings would help to identify promising, viable and realistic formulas for future action.

98. Mr. LABERGE (Canada) asked the Director-General for Development and International Economic Co-operation to clarify the following statement: "There is a need to strengthen the GATT system and adapt it to changing conditions, taking into account the interests of all parties concerned; countries should not seek to bypass GATT by means of bilateral arrangements". He raised the question because

(Mr. Laberge, Canada)

the media had just announced the conclusion of a free-trade agreement between Canada and the United States. That was a well-balanced and wide-ranging agreement, due to be implemented over a number of years and intended to make a considerable contribution to the liberalization of trade between the two countries. It would reduce not only obstacles to trade, but also customs barriers between Canada and the United States. It would not affect third countries, which would continue to benefit from most-favoured-nation status as far as access to both markets was concerned.

99. That agreement represented the fulfilment of Canada's aims and strengthened the concrete objectives of the Uruguay Round. At a time when the world as a whole was aware of the growing dangers of protectionism and before the Uruguay Round came to an end, greater efforts were being made to liberalize trade, in contradiction of the overly pessimistic views expressed on the development of trade policies.

100. The agreement between Canada and the United States was consistent with the GATT provisions concerning free-trade zones. The two countries would in due course notify GATT of the agreement to allow the other contracting parties to examine it before it was signed in January 1988. It was not expected to be ratified until January 1989.

101. Mr. RIPERT (Director-General for Development and International Economic Co-operation) said he wished to allay immediately the fears of the representative of Canada. When he had written that sentence, nothing could have been further from his mind than the extremely important negotiations that had just been concluded between Canada and the United States. He had been referring to the bilateral agreements just mentioned by the observer for the Latin American Economic System when alluding to the agreements negotiated between importing countries, many of which were industrialized, and their suppliers or developing countries, which were intended to restrict the increase in trade between them. While the impetus for, and reasons behind, those agreements were understandable, their effect conflicted with the principles of GATT. He had merely been referring to those agreements and regretted that he had given the Canadian representative cause for concern.

The meeting rose at 6 p.m.