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

Letter dated 4 September 1980 from the Permanent Mission of Belgium
to the United Nations addressed to the Secretary-General

I have the honour to transmit to you herewith, on behalf of the Belgian Government, an explanatory note on the Pact for Interdependent Growth which Belgium is proposing for the consideration of the international community.

The Belgian proposal forms part of the search for ways of organizing a massive and intensified transfer of resources to developing countries, which should also be capable of contributing to a resumption of growth in the world economy and of promoting positive changes in both the developed and the developing economies.

The Belgian proposal is therefore complementary to those put forward by Sweden, Austria, Mexico and Venezuela, among others.

I should be obliged if you would have the text of this note circulated as an official document of the eleventh special session of the General Assembly, under agenda item 7.

I should also like the Belgian proposal to be considered at the forthcoming regular session of the General Assembly, in pursuance of Assembly resolution 34/189 of 18 December 1979 on the acceleration of the transfer of real resources to developing countries, and to be submitted to the United Nations bodies competent to deal with the subject.

(Signed) George M. J. ELLIOTT
Chargé d'Affaires a.i.
of Belgium to the
United Nations

Annex

A PACT FOR INTERDEPENDENT GROWTH

INTRODUCTION

Transfers of resources to developing countries are of crucial importance for the economic and social future of those countries. This is particularly true for the non-oil-exporting developing countries, especially the poorest among them, which have to contend with the rising costs of importing both fossil fuels and capital goods and manufactures from the industrialized countries.

If, in the North-South dialogue, we are to avoid permanent confrontation and promote genuine co-operation, we must above all ensure that the level of official assistance to developing countries is maintained, and indeed increased. The proposal for a "Pact for Interdependent Growth" among industrialized or wealthy countries, irrespective of the political or ideological bloc to which they belong, forms part of a search for ways of organizing an intensified and coherent transfer of resources to developing countries which has already given rise to interesting proposals in the Brandt report and from countries such as Sweden, Austria and Mexico. The aim of such a Pact is to give a new impetus to transfers of purchasing power to developing countries by, inter alia, establishing a link between increases in official assistance and the growth rates of donor countries.

Such an impetus is all the more needed in that:

The situation in the third world continues to cause concern;

Official development assistance is inadequate and is stagnating;

Private transfers are channelled mainly to the middle-income developing countries, whose indebtedness has dangerously increased.

A. The situation in the third world

Despite the indisputable economic progress achieved over a quarter of a century by the developing countries taken as a whole, many of them have not yet attained a genuine economic take-off and at the present stage have only limited development prospects. The gap between rich countries and very poor ones has continued to widen over the years and, in some cases, appears to be unbridgeable, while more than 800 million people are still living in abject poverty and suffering starvation.

Such statistics are disheartening. The rise of 5.4 per cent in the gross national product of the developing countries during the period 1950-1975 was reflected in an increase in per capita income of only 3 per cent, which is still below the increase of approximately 3.4 per cent achieved in the industrialized

countries. Moreover, there is a very great difference between the growth rates of the poorest developing countries (which account for some 70 per cent of the population of the third world) and those of the other, better-off developing countries. The rates were low, or even negative for the first category, and markedly better for the second.

Taken as a whole, the needs of the third world for external assistance and financing are still tremendous and can be expected to increase substantially, at least if there is a genuine desire that conditions in the poorest countries should be improved and that the progress achieved by the countries which are approaching economic take-off should continue.

According to estimates by the Organisation for Economic Co-operation and Development, the annual volume of additional official assistance that would be desirable in order to ensure, for example, a modest growth rate of 4.5 per cent a year between 1980 and 1982 in the 48 developing countries whose per capita income was less than \$450 in 1978 would be some \$11 billion, or roughly double the current volume.

In 1978 total net transfers to developing countries amounted to \$79.6 billion, or four times as much as in 1970 (19.7 billion) in current prices and twice as much in real terms.

These transfers were broken down as follows:

Financial assistance	Approximately 30.3 per cent
Multilateral financial flows (on market terms)	Approximately 4.1 per cent
Bilateral flows (on market terms)	Approximately 65.6 per cent

While the volume of financial transfers to developing countries has increased spectacularly in 10 years, the structure of such transfers has also changed, with a decline in the proportion of official assistance. Whereas, in 1960, 60 per cent of all transfers to developing countries were made on concessional terms, in 1978 two thirds were made on market terms, that is to say, mainly in the form of bank credits, commercial credits or direct investments, which are often inaccessible to the poorest countries or are ill-suited to their needs.

B. Official development assistance is inadequate

The official assistance provided by the member countries of the Organisation for Economic Co-operation and Development continues to fall far short of the target of 0.7 per cent of gross domestic product and tends to stagnate around 0.35 per cent.

Nevertheless, the OECD countries provided 78.3 per cent of the world-wide official assistance to developing countries in 1973 and more than 80 per cent in

1978. For the members of the Organization of Petroleum Exporting Countries, the corresponding figure was 10.8 per cent in 1973 and 15.2 per cent in 1977. The contribution of the socialist countries of Eastern Europe was 10.8 per cent in 1973 and 3.2 per cent in 1977.

Official assistance from the OPEC countries increased from 1.41 per cent of their gross domestic product in 1973 to 1.96 per cent in 1977. In the case of the countries of Eastern Europe, there was a decrease in relation to their gross domestic product from 0.09 per cent in 1973 to 0.04 per cent in 1978.

As to the manner in which assistance is distributed, the share of the least developed countries, which number about 30 and account for approximately 11.6 per cent of the population of the developing countries, increased from 10.1 per cent in 1971 to 22.9 per cent in 1978. The same occurred at the other end of the spectrum, where the share received by countries with a per capita income of more than \$2,500 increased from approximately 4.4 per cent in 1971 to approximately 8.4 per cent in 1978.

On the other hand, the share of the poorer countries with a per capita income of less than \$1,000 taken as a whole declined sharply, from 69.9 per cent in 1971 to 59.7 per cent in 1978, while the over-all share of the countries with a per capita income of more than \$1,000 increased slightly during the same period, from 20 per cent to 20.6 per cent.

A great effort must therefore be made in the coming years for the benefit of the poorest countries. However, the prospects for an increase in the volume of assistance are not encouraging, in view of the serious economic difficulties that a number of industrialized countries are facing.

C. Private transfers are channelled mainly to middle-income developing countries, whose indebtedness has dangerously increased

These financial flows are tied to market terms as regards interest, guarantees and repayment, and in most cases their effect is to increase considerably the cost of the indebtedness of the developing countries and to place a burden on their balance of payments. Moreover, it is a fact that the poorest countries receive hardly any inputs of private capital and are almost entirely dependent on official assistance.

In 1970 the volume of official assistance amounted to \$8,750 million and in 1978 to approximately \$24.1 billion (1970 index = 100; 1978 index = 275). Financial transfers on market terms totalled \$10,280 million in 1970, compared with \$52.3 billion in 1978 (1970 index = 100; 1978 index = 508). However, the private financing granted to developing countries considerably increased their indebtedness. The medium-term and long-term debts of developing countries, which amounted to \$75 billion in 1970, reached a level of \$322 billion in 1977 and \$390 billion by the end of 1979. The cost of servicing was \$9.4 billion in 1970 and \$51.6 billion in 1978.

It should be noted that financial transfers on market terms show an increasing tendency to converge on developing countries that are already in the middle-income category or are on the way to becoming newly industrialized countries. In 1971, 5.6 per cent of all financial transfers, both private and official, went to countries with incomes exceeding \$1,000; by 1978, that figure had increased to 50.3 per cent. In the case of countries with a per capita income of less than \$400, private financial transfers accounted for 24.9 per cent in 1971 and 26.4 per cent in 1978. However, in the case of countries with incomes of between \$400 and \$1,000 the proportion of private transfers, which was only 43.3 per cent in 1971, was already 68.1 per cent in 1978. This had the effect of greatly increasing the indebtedness of those countries and shows once again the inadequacy of official assistance.

I. THE ARGUMENTS IN FAVOUR OF A PACT FOR INTERDEPENDENT GROWTH

A. Interdependence

The working hypothesis embodied in the idea of the Pact for Interdependent Growth is that of the interdependence, or mutual dependence, between the industrialized countries and the third world countries. But reducing the concept of interdependence to the model of relations between "raw-material-consuming countries" and "raw-material-producing countries" is an oversimplification. The reality is more complicated than that.

In many cases, there is in the mutual dependence of the industrialized countries and the developing countries an imbalance in favour of the industrialized countries. Such interdependence is asymmetrical. However, the opposite also occurs, this time to the detriment of the industrialized countries, if one considers, for example, the relations between petroleum-producing countries and countries which are consumers of petroleum products. In the case of the poorest countries of the world, it is going too far to speak of interdependence: in their case, the actual situation is one of dependence.

The indiscriminate use of the term "interdependence" has led the developing countries to accuse the industrialized countries of using it with the ulterior motive of re-establishing relations of a colonial type.

It is therefore important to state the principle clearly: starting from an actual situation of unequal interdependence, we must create a situation of balanced interdependence. Balanced interdependence thus becomes a goal, which means dismantling dominant positions and, instead making maximum use of the complementarities between countries in the light of a new division of labour in the world.

More balanced interdependence is therefore a voluntarist concept, implying an approach based on co-operation, and is incompatible with a confrontational concept. It must be said at the outset that the co-operation model which is envisaged requires radical structural changes in the international economic system. It is precisely the lack of such structural changes, deliberately directed towards what has been called "a new economic order", that may bring about a world-wide breakdown of structures, which would result in a fragmentation of the world into rival economic blocs and, consequently, a dangerous confrontation harmful to all parties.

An evolution towards more balanced interdependence is possible only if economic growth is interdependent. The developing countries would be mistaken if they proceeded on the principle that their growth must be achieved at the expense of the growth of the industrialized countries. Conversely, for the industrialized countries to attribute the stagnation of their own economies to the growth of the developing countries would be to indulge a conservative complex leading to a regressive attitude. The point is, therefore, to make the economic growth of the industrial countries and of the developing countries interdependent.

A prerequisite of such an evolution is the organization of a large-scale global transfer of the purchasing power of the industrial countries to the developing countries. This international distribution of purchasing power should create throughout the world, and particularly in the developing countries, a demand for goods of all kinds. However, it is necessary to avoid an oversimplified Keynesian approach to the problem, consisting merely of stimulating demand, particularly the demand for consumer goods in the developing countries.

If the transfer of purchasing power is to have a multiplier effect locally, it must be channelled towards productive investments and improvements in productivity, starting with the highest priority sectors in the poorest countries: rural and agricultural development. In other words, stimulating demand by the developing countries would be a measure that will lead to nothing unless it is organized in such a way as to strengthen the structure and the economic potential of those countries.

Structural changes are also necessary in the industrialized countries, so that their economies may be adjusted in a positive manner to this evolution of the developing countries. Financing the growth in the production capacity of the third world can have lasting multiplier effects only if the developing countries gain access to international markets. The abolition of all protectionist measures, direct or indirect, is therefore a prerequisite, which must go hand in hand, in the industrialized countries, with a permanent policy of reconversion and innovation.

The Pact for Interdependent Growth must be viewed in this light. It is in the interest of the developing countries that the growth mechanism of the industrialized countries should not be jeopardized. Consequently, the entire international community has an interest in action to combat the present crisis and in the maintenance of a climate of international free trade. However, there must be adjustments of structural policies, in both the industrialized and developing countries. The multiplier effects of the external assistance mobilized under the Pact and the resulting flow-back would facilitate positive and complementary structural changes in the relationship between the economies of the developed countries and those of the developing countries.

B. Depoliticization of assistance

The Pact for Interdependent Growth should be an open-ended covenant involving, so far as contributors are concerned, all countries which have attained a sufficient level of prosperity. They would undertake to make available annually a specific sum for official development assistance in accordance with procedures based on those described below. The proposal would involve all countries whose per capita national income had reached a given level, whether they were Western countries, countries of Eastern Europe, petroleum-exporting countries or newly industrialized countries.

C. Possible basis for a revival of the North-South dialogue

A proposal of this kind would enable the industrialized countries to re-establish the credibility of their intentions towards the developing countries and would be a great help in reviving the North-South dialogue. Specifically, the Pact would mean that:

The participating countries would not take lightly their pledge to increase official development assistance;

The assistance received would stimulate in the developing countries a demand suited to their situation and specific needs, while having beneficial effects on the economic activity of the industrialized countries participating in the Pact;

Development assistance would be oriented in such a way as to promote positive structural reforms in both the developing countries and the donor countries. Official development assistance would thus become one of the major elements in the establishment of a new, more equitable and mutually advantageous world economic order.

Such a pact would also no doubt greatly facilitate the implementation of resolution 129 (V), adopted by the United Nations Conference on Trade and Development at its fifth session in Manila, on the transfer of real resources to the developing countries. ^{1/} Among other things, that resolution urges all developed donor countries whose assistance has not yet reached 0.7 per cent of their gross domestic product to increase substantially their contributions towards that target.

The same resolution contains a plea for new and additional measures to introduce some automaticity in the preparation of development assistance budgets. In particular, donor countries are recommended to set aside for official development assistance at least 1 per cent of the increase in their annual gross domestic product.

By progressively linking official assistance to the increase in gross domestic product, the Pact for Interdependent Growth, the main characteristics of which are outlined below, is undoubtedly in line with that resolution.

^{1/} See Proceedings of the United Nations Conference on Trade and Development, Fifth Session, vol. I, Report and Annexes (United Nations publication, Sales No. E.79.II.D.14), part one, sect. A.

II. CHARACTERISTICS OF THE PACT FOR INTERDEPENDENT GROWTH

1. The basic principle of the Pact is that assistance is linked to the economic growth of the industrialized States and their contributions are adjusted according to the level of prosperity achieved, the rate of economic growth for the year concerned and the level of official development assistance (calculated as a percentage of gross national product) already achieved.

2. Possible procedures:

(a) The rich countries would be required to pay their contribution under the Pact when their per capita national income reached, say, \$3,000. According to World Bank statistics for 1977, this would apply to the following countries: Australia, Austria, Belgium, Canada, Czechoslovakia, Denmark, Finland, France, German Democratic Republic, Germany, Federal Republic of, Italy, Japan, Kuwait, Libyan Arab Jamahiriya, Netherlands, Norway, Poland, Saudi Arabia, Spain, Sweden, Switzerland, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, and United States of America. Some countries are close to the \$3,000 mark: Greece, Ireland, Israel, Singapore and Venezuela. Since the per capita national income figure is to serve as the threshold above which the obligation to contribute takes effect, it should be based on undisputed statistics and should be the subject of an annual appraisal taking into account inflation, disparities in purchasing power and fluctuations in exchange rates.

(b) A priority aim of the Pact is that the rich countries should in practice allocate, as soon as possible, not less than 0.7 per cent of their gross national product to official development assistance, in accordance with the target set by the United Nations. Donor countries which are parties to the Pact should undertake to achieve the 0.7 per cent target and, to that end, to comply at least with the procedures laid down in the Pact. Countries which refuse to meet the 0.7 per cent target would thus be excluded from the Pact and its benefit.

(c) If the principle is accepted, there would, of course, have to be negotiations with the donors and beneficiaries concerned regarding procedures under the proposed system. On the basis of their common interests, the partners would have to determine the amount of the financial transfers and the forms which those transfers would take, and the development goals to be achieved: they would also have to decide on the anticipated benefits and costs. A decision would also have to be taken on the extent to which international monitoring might be envisaged.

(d) The linking of official development assistance to economic growth: the transfer of public funds would be calculated according to real annual economic growth.

(i) One method is to earmark a fixed percentage of economic growth for the transfer in question. In any case, this percentage would have to be not less than 0.7 per cent of annual growth if the target of 0.7 per cent is to be met. Since a certain time lag is unavoidable in calculating the increase in GNP, the contribution under the Pact might be calculated on the basis of the increase in GNP for the previous year.

- (ii) However, application of a fixed percentage to economic growth does not seem to be called for. What is required is the ability to make adjustments according to the amount of annual economic growth. A country whose economy has expanded by 7 per cent should in principle make a larger contribution than one whose economic growth does not exceed 1 per cent. Furthermore, the contribution of the donor countries should also be determined by the absolute level of prosperity and by per capita national income.
- (iii) For this reason, it would be preferable to select a system which would make the contribution progressive and would take into account both the level of prosperity attained and current economic growth.

Example

<u>Per capita income</u> (dollars)	<u>Increase in gross</u> <u>national product</u> (per cent)	<u>Percentage of</u> <u>increase in GNP to be</u> <u>earmarked for official</u> <u>development assistance</u>
3,000	2	1
5,000	2	1.5
10,000	2	2.5
3,000	4	2
5,000	4	3
10,000	4	5

- (iv) This formula could be further refined and use could be made, for example, of a progressive scale according to the income categories into which the various countries fall.

Example

A country whose per capita income fluctuates between \$3,000 and \$4,000 would set aside 0.7 per cent of the first per cent of the annual increase in gross national product; 1 per cent of the second per cent; 2 per cent of the third per cent, 3 per cent of the fourth per cent; and so on. For a country whose per capita income is between \$7,000 and \$8,000 the scale could be made more progressive; the percentages of the contributions could, for example, be tripled.

- (e) In order to make the Pact for Interdependent Growth as meaningful as possible, and for the purpose of maximizing the beneficial results which would accrue from its introduction, it would also be desirable to establish, either as a supplement or as an integral part of the system for mobilizing official assistance, new financing procedures aimed at a more substantial and co-ordinated orientation of the financial resources available on the world capital market or

through the International Monetary Fund. This would entail, inter alia, the introduction of international machinery to provide guarantees and interest rebates to make such capital available to the poorest developing countries, in accordance with procedures and conditions adapted to their long-term development needs.

III. CONCLUSIONS

The proposal for a Pact for Interdependent Growth is based on the urgent need to restore balance in the interdependence between rich and poor countries and to consolidate North-South co-operation by providing objective, automatic and progressive criteria for the mobilization and distribution of official assistance. It is one of a number of steps aimed at establishing coherent, flexible and mutually advantageous machinery for increased transfers of resources to the developing countries. Whereas official development assistance during the 1970s, as has already been pointed out, only barely attained one half of the target of 0.7 per cent set for the first Development Strategy, calculations made on the basis of the Belgian proposal (see appendix below) show that, if the distribution model proposed by Belgium had been applied since 1970 by the countries of the Development Assistance Committee, 2/ the volume of official assistance provided by those countries would have attained 0.97 per cent in 1978, while the annual increase in official development assistance would have been 17.6 per cent.

According to the proposed model, the growth of official development assistance depends to a very large degree on the growth rate of the economies of the donor countries. For example, by 1985, assuming that the Pact had been implemented since 1978 and that the increase in the gross domestic product of the donor countries had been very small (which is in keeping with the present outlook), the portion set aside for official development assistance would reach 0.49 per cent and the annual growth rate would be 11.8 per cent, which at least means a level and rate of increase in assistance higher than those that were achieved during the 1970s.

Under the Pact, the contributions of the Eastern countries and of the newly industrialized developing countries, whose average per capita income exceeded the threshold of \$3,000 would be added to the increased assistance from the DAC countries.

For the third world countries, this would mean a very substantial increase in official assistance which could make possible the effective achievement of the ambitious objectives of the strategy for the Third United Nations Development Decade, whereas at the present stage the very credibility of the new strategy is called in question from the outset because of the generally discouraging prospects with regard to official development assistance.

Belgium urges its partners in the international community and the United Nations bodies concerned to give thorough consideration to all the questions relating to the functioning of the proposed Pact for Interdependent Growth.

2/ The Committee comprises 17 Western industrialized countries which are donors of official assistance.

Appendix

Increase in official development assistance according to
the scale used as an example in the proposal

The increase in gross domestic product is assumed to be 1 per cent to 5 per cent.

1. Increase in gross national product of 1 per cent

The proposal limits the increase in official development assistance to 0.7 per cent of the increase in gross national product.

These would be only an insignificant increase in assistance.

2. Increase in gross national product of 5 per cent

The proposal calls for:

0.7 per cent for the first bracket.

1 per cent for the 1 per cent to 2 per cent bracket.

2 per cent for the 2 per cent to 3 per cent bracket.

3 per cent for the 3 per cent to 4 per cent bracket.

4 per cent for the 4 per cent to 5 per cent bracket.

Result: Total official development assistance would show a very significant increase.

The table below shows the effect which Belgium's proposal would have had on the volume of the official development assistance of the DAC countries in 1978 and 1985 on the basis of the growth assumed above (calculated by the Organisation for Economic Co-operation and Development).

**Effect of Belgium's proposal on the Volume of official development assistance
 of the countries of the Development Assistance Committee in 1978 and 1985**
 (in millions of 1978 dollars and as a percentage of gross national product)

	Volume of official development assistance in 1978					Volume of official development assistance in 1985 on the basis of the proposal <u>b/</u>		
	Actual		On basis of proposal <u>a/</u>		Assumed average annual increase from 1970 to 1978 (per cent)	Millions of dollars	Percentage of gross national product	Average annual increase from 1978 to 1985 (per cent)
	Millions of dollars	Percentage of gross national product	Millions of dollars	Percentage of gross national product				
Australia	588	0.54	966	0.89	9.0	766	0.60	3.9
Austria	157	0.27	517	0.89	42.0	275	0.40	8.3
Belgium	536	0.55	734	0.75	9.5	640	0.58	2.6
Canada	1 060	0.52	3 070	1.52	22.7	1 470	0.61	4.8
Denmark	388	0.75	330	0.84	9.0	420	0.75	1.1
Finland	55	0.17	176	0.53	33.2	135	0.34	13.7
France	2 705	0.57	4 856	1.03	9.7	3 850	0.58	5.2
Germany	2 418	0.38	4 087	0.64	11.7	3 220	0.41	4.2
Italy	175	0.07	1 559	0.60	21.7	705	0.23	22.0
Japan	2 815	0.23	13 429	1.37	31.8	9 070	0.68	22.3
Netherlands	1 075	0.82	1 226	0.94	7.8	1 220	0.82	1.8
New Zealand	55	0.34	157	0.96	23.7	63	0.36	2.0
Norway	355	0.90	360	0.91	18.6	435	0.90	2.9
Sweden	783	0.90	726	0.83	12.7	909	0.90	2.2
Switzerland	173	0.20	370	0.42	16.2	218	0.23	3.4
United Kingdom	1 472	0.48	1 542	0.50	5.5	1 628	0.49	1.4
United States of America	5 664	0.27	19 390	0.92	18.7	7 516	0.32	4.1
Total for DAC countries	19 887	0.35	53 490	0.97	17.6	32 550	0.49	11.8

a/ If the proposal had been implemented in 1970.

b/ If the proposal had been implemented in 1978.