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INTERNATIONAL COOPERATION FOR ECONOMIC GROWTH AND DEVELOPMENT

Implementation of the Commitments and Policies agreed upon in the Declaration on International Economic Cooperation, in particular the Revitalization of the Economic Growth and Development of the Developing Countries

Report of the Secretary-General

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I. INTRODUCTION

1. The Declaration on International Economic Cooperation, in particular the Revitalization of Economic Growth and Development of the Developing Countries (General Assembly resolution S-18/3 of 1 May 1990) was adopted by the Assembly at its eighteenth special session as a major expression of commitment of Member States to strengthen international cooperation for sustained growth of the world economy, particularly to revitalize economic growth and development of developing countries. The late 1980s were already witnessing major changes in the perception of the nature and process of development. By 1990 the old ideological conflicts had greatly eroded. The Declaration reflected these changing contexts. It assessed the challenges and opportunities for strengthening international cooperation during the 1990s, identified factors, both national and international, that are critical for attaining the objective of economic development of developing countries, and affirmed the commitment of all countries to an agenda of action for the attainment of that objective. It provided a framework of understanding within which the International Development Strategy for the Fourth United Nations Development Decade (Assembly resolution 45/199, annex, of 21 December 1990) was formulated and elaborated.

2. In paragraph 4 of its resolution 46/144 of 17 December 1991, the General Assembly requested the Secretary-General to provide an "analytical report, including his assessment of the steps taken by Governments of developed and developing countries, individually and collectively, as well as by organs, organizations and bodies of the United Nations system, towards implementation of the commitments and policies agreed upon in the Declaration." The present report has been prepared in response to that request.

3. The various issues of development and international economic cooperation have been discussed at some length in the Declaration itself and in considerable detail in many other reports and documents, including the International Development Strategy for the Fourth United Nations Development Decade. The present report confines itself to the general thrust of national and international action that has implications for the implementation of the Declaration and does not in general attempt a further discussion of the issues themselves. 1/

4. The Declaration covers a large number of interrelated fields. This report groups them under a number of broad headings.

II. SUSTAINED GROWTH OF THE WORLD ECONOMY AND POLICY CHANGES

5. In the Declaration the Assembly placed considerable emphasis on a favourable international economic environment, consisting of a dynamic world economy and largely dependent on the policies of the major industrialized countries. In it the Assembly called for sustained non-inflationary growth in the industrialized countries, whose policies profoundly influence the direction and nature of change in the world economy, and urged them to

continue efforts to narrow macroeconomic imbalances in a manner that can benefit other countries. In particular, efforts are to be made to correct internal and external imbalances, to lower interest rates and to make exchange rates more stable and markets more accessible. It also called on developing countries to pursue appropriate economic policies, including control of inflation, promotion of domestic savings, creation of favourable conditions for foreign investment and, above all, adoption of policies that lead to the betterment of the human condition.

6. Developments in the world economy immediately after the adoption of the Declaration did not augur well for its implementation. The Persian Gulf crisis broke out barely three months after its adoption, causing great human suffering, pushing oil prices to their highest levels in recent years, inflicting large economic losses on many developing countries, and threatening the stability of the world economy. The global impact of the crisis turned out in the end to be small, although the balance of payments of a number of developing countries came under intense pressure during the second half of 1990. The overall impact of the crisis on the balance of payments of the industrialized countries as a whole was relatively minor. Much more important was the recession in the industrialized countries, which, on the whole, owed little to the Gulf crisis.

7. World output grew by under 2 per cent in 1990, a sharp slowdown from 3.2 per cent in 1989, and declined by half a per cent in 1991, the first decline in recent history. A part of the slowdown and decline was due to a sharp fall in output in the economies in transition, but the industrialized economies were also in decline. As producers of over 70 per cent of world output, their decline was a dominant influence in the world economy.

A. Growth and policies in industrialized countries

8. By the fourth quarter of 1990, Canada, France, the United Kingdom of Great Britain and Northern Ireland and the United States of America were in recession. Except for France, output declined in these economies in 1991 as a whole. For the industrialized economies taken together, output increased by barely 1 per cent in 1991, the increase being attributable largely to strong growth in Germany and Japan until late in the year when they too began to weaken. The longest expansion of the industrialized economies in the post-War period thus came to an end. The recession was expected to be short and shallow, but the recovery has proved elusive and the upturn projected for the middle of 1991 appeared to be only tentative in mid-1992.

9. Government policy in most of these economies was to ease monetary conditions and wait for the upturn. Short-term interest rates declined in many countries, in several cases substantially. In the United States, the discount rate was reduced in stages from 7 per cent in December 1990 to 3 per cent in June 1992, the lowest level in three decades. In Canada, prime rates declined from close to 15 per cent in mid-1990 to around 6 per cent in early 1992. In the United Kingdom, money-market rates declined from

15 per cent in mid-1990 to 11 per cent in mid-1992. Japan loosened monetary policy, starting later than those countries and more cautiously at the beginning, the significant relaxation coming only in the latter part of 1991. By July 1992, the Japanese discount rate had been reduced to 3.25 per cent from 6.00 per cent at the end of 1990. In France and Italy short-term interest rates remained practically unchanged. Among the major industrialized countries, it is only in Germany where interest rates rose, the discount rate climbing from 6 per cent at the end of 1990 to 8 per cent at the beginning of 1992 and to 8.75 per cent in July. The latest increase in the German discount rate was immediately followed by a similar move in Italy, which raised the rate from 13 per cent to 13.75 per cent.

10. In pursuing macroeconomic policies, the industrialized countries have been guided by their overriding objective of keeping a tight lid on inflation. Monetary conditions were relaxed in most of these countries not only because it was considered necessary for stimulating the economy but also because it was deemed safe in the situation of low inflation that prevailed. Depressed demand, which also helped moderate wage increases, and declining commodity prices led to a significant moderation of inflation. Consumer prices rose by 4.5 per cent in 1991, compared with 5.2 per cent in 1990 and about half the rate of 1982, for the industrialized countries as a whole. The return of oil prices to pre-Gulf crisis levels early in 1991 contributed to the alleviation of inflationary fears. In Germany, however, demand pressure, resulting from a sharp increase in public spending necessitated by the unification of the country, pushed up inflation. The Bundesbank responded with a highly restrictive monetary policy, even as the growth of the economy was slowing down.

11. As of mid-1992, the monetary relaxation in the majority of industrialized countries has not had the desired result. Preliminary data for the first quarter of 1992 suggest unexpectedly high growth in Germany, Japan and the United States, but these are believed to be spurts rather than the foundation of sustained growth. Projections for the year as a whole still show only weak growth. The latest unemployment figures and second quarter growth data appear to support these projections.

12. Though short-term interest rates have come down substantially, long-term rates - the rates that enter cost considerations in fixed investment - have fallen less and remain historically high in real terms. Moreover, confidence remains weak both among consumers and investors in a number of countries. This has a powerful influence in holding up spending decisions even when interest rates are low.

13. While monetary policy has been relaxed in most countries, Governments generally have been wary of fiscal stimulus. The need for a reduction of fiscal imbalances has been recognized by all governments as a medium-term objective. This is consistent with the policy prescriptions of the Declaration. For the seven major industrialized countries as a whole, central government fiscal deficit as a proportion of GDP declined from 4.6 per cent in 1985 to 2.3 per cent in 1989. 2/ However, a policy of shrinking the fiscal

deficit when the economy is in recession is not consistent with a policy of stimulating growth. In the short run, one of them has to give way to the other. Growth in this sense has not been a priority objective of most governments. Although central government deficits increased in 1990 and 1991, the fiscal impulse in the industrialized economies has been neutral on the average, with only a mildly expansionary impact in some and contractionary impact in others. In the United States, a fiscal stimulus package was considered by Congress but, except for an extension of unemployment benefits, has not been implemented. In Japan a modest fiscal stimulus was in effect in 1991 and further stimulus was being contemplated at mid-1992.

14. While countercyclical measures involve difficult decisions of timing and magnitude and have often been shunned, as in the current recession, their chances of success are thought to improve with better policy coordination and surveillance among countries, on which the Declaration laid some stress. The importance of coordination of policies among the major industrialized countries to promote non-inflationary growth has often been emphasized, especially at the Group of Seven summits, but concerted action to achieve growth has so far been lacking. The eighteenth annual summit thus merely agreed on guidelines to spur growth, including continuation of "sound monetary and financial policies to support the upturn without rekindling inflation", creation of "the scope for lower interest rates through the reduction of excessive public deficits and the promotion of savings", and curbing of "excessive public deficits above all by limiting public spending" (see A/47/375-S/24429, annex I, para. 10). While policy coordination was pledged, action to spur the economy was essentially left to decisions of individual countries.

15. Among the imbalances between the major industrialized countries, on the narrowing of which the Declaration laid some emphasis, the large current account deficit of the United States and the large surplus of Japan have received the most attention. Considerable narrowing of these imbalances has taken place in recent years, although Japan's surplus increased in 1991 while the United States deficit is expected to increase in 1992. Japan's current account surplus as a proportion of GDP fell from 4.3 per cent in 1986 to 1.2 per cent in 1990, while the United States deficit declined from 3.4 per cent to 1.7 per cent over the same period and to 0.2 per cent in 1991. 2/

16. The financing of the United States deficit is no longer considered a problem. The implications of the reduction of the two imbalances for the world economy are not, however, the same. The United States current account deficit is a counterpart of the large fiscal deficit of the country and is a measure of the extent to which the rest of the world has been financing investment in the United States. An increase in United States domestic savings, reflected in the reduction in the country's external deficit, would help relieve the saving constraint of the world. The Japanese current account surplus is a mirror image of a large Japanese domestic saving that is available for financing investment in the rest of the world. A reduction of the surplus could only mean, other things remaining the same, a reduction of

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resources for investment in the rest of the world economy, unless some other country saves more than it invests, i.e. generates a current account surplus.

17. Shrinking imbalances have also changed perceptions about currency misalignments. Although some further changes are expected in the key exchange rates, they are unlikely to be of the magnitude experienced in the second half of the 1980s.

B. Developing countries

18. The serious economic difficulties experienced by many developing countries in the 1980s were to a large extent set off by a number of external shocks. But they also starkly exposed the inherent weaknesses of economic structure and policy in many of those countries. International action was needed to alleviate the effects of external shocks, but it was becoming clear that domestic stabilization, adjustment and policy reforms were essential for recovery and sustained growth. The Declaration recognized this.

19. The number of countries undertaking stabilization and reform measures multiplied in the 1980s. Many of these measures were taken with the support and active involvement of the International Monetary Fund (IMF) and the World Bank even though in many cases national governments differed greatly with these institutions, especially the former, over the scope and content of reforms.

20. By early 1992, about 50 developing countries and 4 countries with economies in transition were undertaking programmes of stabilization and adjustment with Fund support amounting to SDR 20 billion. 3/ World Bank adjustment lending rose sharply from under $1 billion in 1980-1982 to $6 billion in 1989 and remained at that level in 1991. 4/ Efforts at adjustment were, however, by no means limited to Fund and Bank-supported programmes and are more widespread than these numbers might suggest. Moreover, programmes supported by the two institutions were generally initiated by the countries themselves and they alone are responsible for their implementation. Adjustment has always been difficult and often frustrating. There have been numerous instances of efforts abandoned as political and social costs of adjustment proved too high and put fragile democracies at risk and as resources to undertake adjustment proved too meagre. New programmes of adjustment often followed failed programmes in succession throughout the 1980s and an "adjustment fatigue" appeared to set in.

21. No unambiguous conclusion can yet be drawn about the success of these adjustment efforts. 5/ While it is quite possible that in most countries the situation could be worse if adjustment had not been undertaken, in too many cases adjustment efforts have not yet led to increased investment and growth, which is the ultimate test of success.

22. Adjustment itself has, however, been large. Thus, as an IMF study 6/ shows, significant fiscal consolidation, called for in the Declaration and one

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of the major components of adjustment programmes, has been achieved in the developing countries in the late 1980s. Fiscal deficits as a proportion of GDP declined from around 7 per cent in 1986-1988 to 4 per cent in 1989-1991 for the developing countries as a whole. Moreover, the deficit declined in a large majority of the countries studied, and among them the decline was even more marked - from 9 per cent to 3 per cent. Significant gains were made in Africa where the fiscal deficits declined from about 8 per cent of GDP to 3 per cent and in Latin America where it fell from 7 per cent to 2 per cent over the same period.

23. While production stagnated or slumped, inflation surged in many developing countries in the 1980s, especially in Latin America. Some significant improvement has, however, been made recently. In Latin America, where inflation reached over 1,700 per cent on average in 1990, stabilization programmes succeeded in bringing it down to about 230 per cent in 1991, still a high rate. 7/ Among the countries in the region, inflation was reduced from over 13,000 per cent in 1990 to about 1,200 in 1991 in Nicaragua, from 7,700 per cent to under 200 per cent in Peru, from 1,600 per cent to 470 per cent in Brazil, from over 1,300 per cent to 91 per cent in Argentina, and from 30 per cent to 20 per cent in Mexico (see E/1992/19). These are considerable achievements, although they remain fragile in some countries, and the battle against inflation has not yet been won in Latin America. In Africa, where inflation has been far below Latin American proportions, there was a deterioration in 1991 when the annual rate rose to 29 per cent from 19 per cent in 1990. But inflation was at four-digit levels in Zaire and in double digits in Angola, Uganda, Zambia and Zimbabwe. Shortages, especially of food, and large devaluations have contributed, at least temporarily, to higher inflation in a number of countries. In South and East Asia, with its tradition of price stability, the inflationary pressure increased somewhat in 1991, partly due to overheating in some economies. Still, inflation remained under 10 per cent. 8/

24. Setting a realistic rate of exchange has been a major element in adjustment and reform efforts. Many countries undertook massive devaluation of their currencies. Sometimes the devaluation itself fuelled inflation, especially when not accompanied by consistent action on other fronts, necessitating further devaluation. Neither is it easy to find, far less to maintain, the ideal rate of exchange. Nevertheless, many countries have succeeded in avoiding over-valuation. The real effective exchange rate of a large majority of developing countries for which data are available was significantly lower in 1991 than in 1981. 8/ In some countries currency appreciation has taken place in recent years due, among others, to increased capital inflow, as in Argentina, Chile and Mexico in 1991. In Africa, several countries have devalued their currencies in nominal terms in recent years, notably Algeria, Angola, Botswana, Ghana, Kenya, Madagascar, Mozambique, Sierra Leone, the Sudan, Uganda, the United Republic of Tanzania, Zaire, Zambia, and Zimbabwe. In a few cases, a real devaluation was achieved. Frequently, devaluations have been accompanied by the liberalization of the foreign exchange market and have led to a narrowing of the gap between the official and the open market rate, setting the stage for improved resource

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allocation. In Asia, many countries have successfully avoided overvaluation of their currencies. In general, the resistance to devaluation seems to be giving way among developing countries to a more ready acceptance of the need for keeping the currency value at a level that approximates its scarcity value.

25. Privatization of state enterprises has received increasing attention in reform efforts of recent years. In Latin America, Brazil sold the state steel company Usiminas and three other large public sector industrial enterprises in 1991. Argentina threw open to foreign investors traditional state monopolies in electricity, telephone and oil. In Mexico, a large number and variety of enterprises were privatized in 1991, including steel and banking. In Africa, where difficulties of privatization are generally greater than in other regions, Côte d'Ivoire, the Gambia, Ghana, Guinea, Niger and Togo have sold a fairly large number of state-owned enterprises to the private sector in recent years. In Asia, privatization has been an important component of the sweeping economic reform that is being undertaken, as in Pakistan. In Bangladesh, a large variety of state enterprises was divested over the 1980s. Extensive privatization programmes have been undertaken in Malaysia.

26. In marked contrast to the absence of any significant trade liberalization in the industrialized economies and continuing growth of unilateralism and managed trade in these economies, a large number of developing countries have been liberalizing their trade regimes. The trend towards liberalization in the second half of the 1980s has been continued in the early 1990s. 9/ Remarkable policy shifts have taken place in countries of Latin America where tariff and non-tariff barriers have been traditionally high. Argentina has removed many of its traditional trade barriers. Brazil aims at reducing average tariffs to levels of the Organisation for Economic Development and Cooperation (OECD) countries in four years. Chile has abolished quantitative restrictions and has brought down the average tariff rate to 15 per cent. Programmes of accelerated trade reform were taken up in 1991 in Colombia, Jamaica, Peru and Venezuela. Mexico eliminated most quantitative restrictions and reduced tariffs, as a run-up to the formation of a free trade zone with Canada and the United States.

27. Countries in other regions are also undertaking trade liberalization measures. In Africa, Côte d'Ivoire, Cameroon, Egypt, the Gambia, Ghana, Kenya, Madagascar, Malawi, Nigeria, Senegal, the United Republic of Tanzania and Zaire have abolished many quantitative restrictions in recent years. In Asia, the comprehensive set of reforms that India initiated in 1991 emphasizes greater openness of the economy. Both tariff and non-tariff barriers were reduced. Pakistan replaced some non-tariff barriers with tariffs and reduced the maximum tariff from 225 per cent to 125 per cent. Thailand reduced tariffs across the board and removed a number of items from the list of products requiring an import licence.

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C. Countries with economies in transition

28. The Declaration was adopted against the backdrop of dramatic changes in eastern Europe and the former Union of Soviet Socialist Republics, which were seen as the beginning of a new era of international economic cooperation, with their economies rapidly making their transition to the market system and contributing to the reinvigoration of the world economy. The transition in eastern Europe turned out to be much more difficult than expected. The Soviet Union broke up and its constituent republics plunged into economic chaos. In eastern Europe, output declined, on average, by over 10 per cent in 1990 and by a similar magnitude in 1991 and will probably fall again in 1992 though less steeply. In the republics of the former Soviet Union, output plunged by some 17 per cent in 1991 and may fall by a similar amount in 1992. Intra-group trade among these economies fell drastically, aggravating the decline in production. Because of their weak linkage with the rest of the world, the impact of the sharp fall in production on the world economy has been relatively small, although several developing countries with strong links with some of these economies suffered loss of trade and external resources.

III. BETTERMENT OF THE HUMAN CONDITION

29. In the Declaration the Assembly emphasized the betterment of the human condition as the ultimate objective of all economic policies. It stressed full utilization of human resources, which needs, among other things, effective policies for health, nutrition, education, alleviation of poverty, appropriate population policies, and the recognition of basic human rights. This emphasis in the Declaration represented a change in perception that began in the 1980s about the nature of development and the role of the betterment of the human condition in the development process, later reflected, for example, in the United Nations Development Programme Human Development Reports and the International Development Strategy for the Fourth United Nations Development Decade.

30. The betterment of the human condition can only be a long-term objective, and there are few meaningful indicators of recent achievements. Progress towards achievement of the objective can be more meaningfully assessed in a long-term context, for example, the International Development Strategy. A number of observations can nevertheless be made.

31. There is a well known and strong association between economic growth and improvement in the human condition. A number of countries, including some with a large population, have grown fast in recent years and have also made rapid strides in such areas as health, nutrition, education and poverty reduction. On the other hand, a large number of countries have suffered economic stagnation and decline and have been forced to make cuts in social spending. While difficulties of measurement and lack of data preclude any definite conclusion on the trend in the most recent years, improvement in most social indicators may have slowed down in these countries, in some cases significantly, but there are few recorded instances of a reversal of the

upward long-term trend. 10/ However, social conditions have certainly deteriorated in a number of countries in the grip of civil war and famine, and there are pockets of distress in others.

32. There are still too many countries where basic human rights are flouted and democratic values are still to take hold. Progress in these areas in the short run is difficult to measure. Nevertheless, major moves have been made in recent years towards democratization of political decisions in a number of countries in Africa, Latin America and Asia. At the same time new ethnic, religious and political conflicts have risen and seriously compromised basic human rights in many areas of the world.

33. National policies, especially on health, women's education and nutrition, play critical roles in the improvement of the human condition. Nevertheless, activities of international organizations like the United Nations Children's Fund (UNICEF) and the World Health Organisation (WHO) have played notable roles in recent years. The spread of oral rehydration therapy and immunization, for example, made a significant contribution to the reduction of infant mortality. By 1990, 80 per cent of 1-year-old children in the developing countries had been immunized against some of the most common but lethal diseases, largely due to the success of WHO's Expanded Programme on Immunization, compared with 20 per cent in 1974 when the programme was launched.

34. The World Summit for Children, held at United Nations Headquarters in September 1990, was a major expression of international concern in a critical area of human development. It set ambitious but achievable goals for saving and improving the lives of children (see A/45/625, annex). So far over 130 countries, both developed and developing, have prepared or are in the process of preparation of national programmes of action to achieve these goals.

IV. THE DEBT PROBLEM OF THE DEVELOPING COUNTRIES

35. In the Declaration the Assembly also emphasized a durable and broad solution to external debt problems. It called for broad implementation of what were then new initiatives and measures to reduce the stock and service of debt or otherwise provide debt relief for developing countries so that vigorous economic growth and development might resume.

36. In fact, considerable progress has been made since 1990 in regularizing the external debt situation of several of the largest debtor countries, and quite improved terms have been agreed on for restructuring the debt owed to official creditors by low-income countries undergoing substantial economic reform programmes. Moreover, arrangements were established under which countries that accumulated large arrears to the multilateral institutions could cooperate with those institutions in a programme leading to repayment of the arrears over time. 11/

37. Despite these advances, however, vigorous economic growth and development have not yet been realized. None the less, the groundwork is being established in several countries for significant economic recovery.

38. Roughly half the foreign debt of the developing countries is owed by countries that have had serious difficulties in making timely debt-service payments and have thus required some form of concerted debt restructuring. In the years preceding the adoption of the Declaration, it was not uncommon for 10 to 20 agreements to be negotiated each year between individual developing countries and their commercial bank creditors. Some 15 to 24 agreements a year were also signed by debtor countries and their official creditors under the aegis of the Paris Club. Thus, despite almost a decade of debt renegotiation and economic adjustment programmes, it did not seem that the process was leading to a resolution of the debt problem. Meanwhile, the social strains of protracted adjustment mounted and the opportunity costs of making net financial transfers to creditor countries became increasingly unacceptable politically, particularly in countries that had newly re-embraced democratic forms of government.

39. With this in view, certain initiatives were made, which were alluded to in the Declaration, in particular that of the Secretary of the Treasury of the United States in March 1989 for treatment of commercial bank debt (the "Brady plan") and the recommendation of the summit meeting of the Group of Seven in June 1988 in Toronto relating to the debt of low-income countries (see A/43/435-S/19974, annex I). The former initiative has become the centrepiece of internationally supported negotiations of debtor countries and commercial banks; indeed, the last "standard" rescheduling took place in 1990. The latter initiative, however, was in effect amended several times.

40. Paris Club practices were first supplemented as a result of a recommendation of the summit of the Group of Seven in Houston in July 1990 to ease the terms of the rescheduling arrangements for lower middle-income countries. In addition, there were several unilateral write-offs of official development assistance (ODA) credits for low-income countries, some in the context of commitments made at the Second United Nations Conference on the Least Developed Countries, held in Paris in September 1990. Indeed, almost $6 billion was written off in 1990, more than half of it by France ($3.4 billion), but with almost $1 billion each by Canada, Germany and the United States. 12/ This was followed by the path-breaking agreements for Egypt and Poland in the first half of 1991 in the wake of the major political and economic changes in eastern Europe and the Persian Gulf war. Finally, at the end of 1991, the Paris Club began to enhance the terms for countries that had been eligible for "Toronto terms", thereby implementing the recommendation of the London summit of the Group of Seven the previous July to accord relief that went "well beyond Toronto terms" for heavily indebted, low-income countries undergoing major adjustment programmes (see A/46/309-S/22817, annex I).

41. The essence of the new Paris Club terms, which are available only to the poorest countries of the world, is the same as that of the new-style

commercial bank negotiations, which benefit mainly middle-income countries. In both cases, it was recognized that the countries that were struggling to overcome their debt crises through the 1980s could not grow their way out from under their debt overhang. The debt servicing over the life of the credits simply had to be reduced or part of the debt itself had to be written off.

42. The operations of the current international practices in debt restructuring are described in another report of the Secretary-General to the General Assembly (see A/47/396). The major innovations include, first, the formal acceptance that debt-crisis countries will not have to make total debt-servicing payments on outstanding debt that is much above what they have been paying in recent years and what the financial markets or governments expect them to be able and willing to pay in the future. The new procedures also depart from earlier practices in offering creditors a menu of options for debt or debt-service reduction or extending new money, rather than requiring all creditors to agree to the same terms for debt restructuring. In the past this had limited concessions to what the most reluctant creditor would accept.

43. The results regarding commercial bank debt are agreements that more or less reflect the secondary market discount, while in the Paris Club the new arrangements can reduce eligible debt servicing by up to 50 per cent for low-income countries. These results do not, however, make for a significant direct change in the international cash flow of the debtor countries, since arrears had been accumulating at a significant pace, but the agreements have seemed to help send a message that the debtor country had turned a corner in regularizing its debt situation.

44. It appears, in other words, that the international debt strategy is on track. The concessions and realism it embodies should be enhanced further and applied to more countries; for example, only eight countries have reached debt and debt-service reduction agreements with their commercial banks, although they account for about 30 per cent of the bank debt of all developing countries. However, it is not only the largest countries that have unsupportable debt-servicing burdens on commercial bank debt, nor is it only the poorest countries that cannot fully service their debt to official creditors.

45. The most significant aspect of the current debt restructuring strategy is that where it is applied it appears to send a favourable signal to the financial markets, and some middle-income countries have again become borrowers, albeit at steep premiums, and have attracted substantial capital inflows, in part because of the high domestic interest differentials in favour of the debtor countries. What is needed is to ensure that the new inflows are applied to real capital formation and that adequate official resources on appropriate terms go to the low-income countries, because even with enhanced official debt restructuring, they are not expected to be able to compete successfully for private market funds or attract adequate amounts of direct investment in the short run.

V. EXTERNAL RESOURCES FOR DEVELOPMENT

46. The flow of external resources to the developing countries has improved dramatically over the past two years, after seven years of negative flow averaging over $14 billion a year. 13/ The net transfer of financial resources to capital-importing developing countries, which had been negative since 1982, turned into a positive $10 billion in 1990 and around $33 billion in 1991. Much of the improvement was due to a large net inflow of private capital, mainly to Latin American countries. There was also a large increase in official flows.

47. In the Declaration the Assembly called for substantial concessional resources to enable the developing countries, especially the least developed countries, to cope with the challenges of the 1990s. The increase in official flows in 1990-1991 was mainly accounted for by an increase in grants to countries affected by the Persian Gulf crisis. Overall official transfers are not likely to remain at the high levels of those two years.

48. The total flow of ODA, which amounted to $65 billion in 1990, declined in real terms in the second half of the 1980s. The decline was due to a fall in non-Development Advisory Committee (DAC) sources. Net ODA from DAC countries increased by 1.3 per cent a year in real terms during that period and reached $55 billion in 1990 and $56 billion in 1991.

49. The ODA target of 0.70 per cent of donor country GNP, agreed on in the United Nations development strategies and reiterated in the Declaration, remained unreached. In 1991, the last year for which firm data are available, DAC countries as a whole devoted about 0.34 per cent of their GNP to ODA, or only half the target, a level that was virtually the same as in the early 1970s. The share of ODA in GNP, as well as its changes over time vary greatly among donors. A number of donors (Sweden, the Netherlands and Norway) exceeded the 0.70 per cent target in the 1970s and others (France and Denmark) in the 1980s. A number of others remain uncommitted to any quantitative target. Even in countries that accepted the target, however, budget constraints and a certain amount of public apathy are powerful influences against any vast increase in ODA. There is little evidence that any large donor country has been making significant progress over recent years towards achievement of the target. 14/

50. The ODA target of 0.15 per cent of donor GNP for the least developed countries was reaffirmed in the Programme of Action for the Least Developed Countries for the 1990s and endorsed by the General Assembly in its resolution 45/206 of 21 December 1990. The average ODA as a proportion of DAC GNP was only about half the target (0.08 per cent) in 1990, though a number of donors (France, Norway, Denmark, Sweden, the Netherlands and Finland) reached or exceeded the 0.15 per cent target. 15/ The average is unlikely to improve unless some of the large donors substantially increase assistance.

51. Despite the great necessity for increased external financial resources for the developing countries, it is being increasingly felt that resources,

especially concessional, will remain scarce for the foreseeable future. A greater emphasis on better utilization of resources, both internal and external, and an increased reliance on policies to attract private foreign capital appear inevitable for many developing countries.

52. Multilateral financial institutions have played a large role as suppliers of external resources for development. They accounted for about one fifth of the total disbursement of official development finance in 1989-1990. 16/ Over the years 1989-1991, resource commitments of these institutions increased from around $33 billion to around $40 billion. 17/ Their importance has increased in the past years with the emergence of the economies in transition as a major new source of demand for finance. The resource base of the financial institutions has had to increase to take account of the increased need. The recent capital increase of the World Bank has thus been an important step in this direction. The Tenth Replenishment of International Development Association (IDA) is currently being discussed. The addition of eight new members since the Ninth Replenishment went into effect and the continuing need for concessional finance for the low-income countries make it necessary to ensure that the size of the Tenth Replenishment exceeds that of the Ninth in real terms. An "Earth increment" to the Tenth Replenishment will be needed if low-income countries are to achieve some of the goals of environmentally sustainable development.

53. Net IMF lending became positive ($1 billion) in 1991 for the first time since 1985, but became negative again in the first half of 1992. An increase in the IMF quota has become especially necessary with an increased number of developing countries adopting stabilization and adjustment policies and with countries in transition from the command system to market economies joining the organization. In June 1990, the Board of Governors of the Fund proposed a quota increase of 50 per cent. The increase has not yet gone into effect, however, as members holding the required majority of quotas have not, as of mid-1992, approved it. 18/

VI. REGIONAL INTEGRATION AMONG DEVELOPING COUNTRIES

54. Initiatives of economic integration among developing countries have multiplied in recent years, although some of the present schemes are not much more than statements of intentions. In the Western Hemisphere, in June 1990, members of the Central American Common Market (CACM) have renewed their efforts to implement a free trade agreement by 1992 and in July 1991 a timetable was formally approved. In January 1991, Mexico, which thus far has been looking North, agreed to establish a free trade area with a number of Central American countries by 1996. In September of that same year, Chile and Mexico signed a free trade agreement.

55. In South America, new tariff reductions and trade liberalization measures were announced by the Latin American Integration Association (LAIA) in 1990. At its December 1989 Summit, the Andean Group - a subgroup of LAIA - set the target of 1995 for the establishment of a free trade area and 1997 for the

establishment of a common market. These deadlines have now been brought forward to 1992 and 1993, respectively. In March 1991, Argentina, Brazil, Paraguay and Uruguay agreed to set up a common market (Mercosur) by 1995. This arrangement may ultimately also include Bolivia and Chile. In 1991, Colombia, Mexico and Venezuela signed an agreement on trade and investment involving trilateral trade liberalization by the end of 1993. In January 1991, Venezuela signed an agreement with Central American countries to establish a free trade area by 1996.

56. In the Caribbean area, the Caribbean Community (CARICOM) is working on phasing in a common external tariff, with a stated deadline of January 1994. A subgroup of CARICOM, the seven members of the Organization of East Caribbean States, is pursuing implementation of a common external tariff ahead of schedule.

57. In Africa, members of the Organization of African Unity (OAU) signed in June 1991 a treaty establishing the African Economic Community to be set up in stages. The ultimate aim is to create a customs union within a time horizon of about 34 years.

58. In Asia and the Pacific, a number of new initiatives are under way, in at least one instance the stated objective being to provide a counterweight to bloc formation in Europe and the Americas. Thus, following the suspension of the Uruguay Round talks in December 1990, Malaysia suggested an East Asian economic grouping. At a recent meeting of the Association of South East Asian Nations (ASEAN), the name of the grouping was changed to the East Asian Economic Caucus, with its role redefined as a forum on global trade issues. Meanwhile, several other initiatives for regional grouping have been taken. For example, agreement was reached in January 1992 to create an ASEAN Free Trade Area within 15 years. Plans have been announced for a trading zone in north-east Asia, the Tumen River area development programme. Also, the heads of 11 Governments met in Istanbul at the end of June 1992 to initiate a Black Sea zone of economic cooperation (see A/47/305-E/1992/96).

VII. INTERNATIONAL TRADE

A. Unilateralism, bilateralism and regionalism

59. While tariff barriers to international trade have come down substantially over the years and the average tariff rate in the industrial countries is low, protectionism has taken various quantitative and other non-tariff forms. Although exports of manufactures from developing countries to industrialized countries have expanded much faster than world trade, many products of export interest to the former face import barriers. A large proportion of international trade is now "managed", through unilateral and bilateral action. There has been a clear erosion of multilateralism.

60. There is little evidence to suggest that the trend towards managed trade has eased in recent years. Included under this rubric is an assortment of

unilateral measures and bilateral arrangements, such as "voluntary" export restraints (VERs), as well as the imposition of anti-dumping and countervailing duties.

61. The Special and Super 301 provisions of the United States' 1988 Trade and Competitiveness Act have often been cited as examples of aggressive unilateralism, used against trade partners who are perceived as engaging in "unfair" trade. Bilateral arrangements comprise a growing category of protectionist measures, ostensibly "voluntary" and hence difficult for GATT to monitor. A variation on the same theme is "voluntary" import undertakings, such as the newly revised five-year semiconductor arrangement with Japan, designed to guarantee United States producers a share of the Japanese market. The United States-Japan Structural Impediments Initiative, designed to "pry open" the Japanese market to United States imports, is yet another example of "managed trade" in action.

62. Anti-dumping actions are being used as a major protectionist tool. Between July 1989 and June 1990, the United States initiated 24 anti-dumping actions, Australia 23, and Canada and the European Community 15 each. 19/ The total number of measures adopted, however, declined between 1987 and 1990. The danger inherent in such actions lies in their trade-distorting effects. Thus, the mere risk of an anti-dumping investigation may suffice to ensure that a foreign supplier "voluntarily" restrains exports or raises prices.

63. The trend towards regionalism continues. The European Community is slated this year to achieve full economic union. It already accounts for some 25 per cent of world trade. The North American Free Trade Agreement, which is scheduled to unite Canada, Mexico and the United States in a free trade zone of 370 million consumers, would mark the first such agreement between two industrialized countries and a developing country. While trade blocs have become a reality in the 1990s, the impact of their proliferation on the future of the mulilateral trading system is still unclear. There is, however, a growing recognition that the phenomenon itself calls for strengthening of the rules of the game in international trade through a successful conclusion of the Uruguay Round.

B. Uruguay Round of multilateral trade negotiations

64. The Assembly, in the Declaration, expressed the vital importance of the Uruguay Round of multilateral trade negotiations resulting in a balanced outcome, preserving and strengthening the multilateral trading system, enabling trade liberalization and increased market access for exports of developing countries. The negotiations remain in a stalemate over farm trade. At the core of the dispute are farm subsidies, which the United States and other food-exporting nations have been trying to reduce sharply while the European Community has been unwilling to accept anything more than what the other parties consider only a modest reduction. The latest attempt at compromise was made at the G-7 Summit in Munich in July. The attempt did not succeed, and the summit leaders only expressed the hope that the Uruguay Round would be completed before the end of the year.

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C. Commodities

65. Commodity prices remained weak because of lack of vigour in the world economy and changes in production and consumption patterns, resulting in stagnant or falling export revenues for many commodity-dependent countries. Non-fuel commodity prices fell by around 6 per cent in real terms in 1991 after a 15 per cent fall in 1990. Many prices reached record lows.

66. The vulnerability of commodity producing countries to external shocks can be reduced only through diversification of their production structure. For many countries this can be achieved only through industrialization, which is, however, a long-term process. Many countries, especially in Africa, are still struggling with problems of stabilization and adjustment and have been able to make little headway in industrial development.

67. Commodity agreements to stabilize prices remained largely ineffective. Negotiations to revive some of these agreements have not produced results. Both the International Coffee Agreement and the International Cocoa Agreement are now operating without economic clauses. The International Rubber Agreement, the most successful among the commodity agreements, came under pressure in 1991 as major producers and consumers failed to agree on a new pact. The Association of Tin Producing Countries was, however, strengthened in 1991 when China, the second largest producer, joined it.

68. The IMF Compensatory and Contingency Financing Facility (CCFF) and the European Community's STABEX (system of stabilization of export earnings) remain the only two major schemes for stabilization of the export earnings of primary producing developing countries. However, these facilities have not been adequate in cushioning commodity-dependent developing countries against the instability of their export earnings. Only a limited number of countries, mostly the larger exporters, have benefited from the CCFF and its predecessor, the Compensatory Financing Facility (CFF). 20/ Drawings from the Facility have lost their former automaticity and are hobbled by conditionality. The number of drawings from CFF/CCFF has been declining and in 1991 there were only three drawings for export shortfalls. 21/ STABEX resources, which are available for compensation of shortfall of export revenue from individual agricultural crops, increased from 925 million ECU for the period 1986-1990 to a planned 1500 ECU for the period 1991-1995 (under Lomé IV). 22/ Resources have, however, been inadequate in the past to cover the shortfall in export earnings. In 1990, for example, only about 40 per cent of the eligible shortfall was covered. The STABEX scheme, moreover, is restricted to African, Caribbean and Pacific (ACP) countries. In 1987, the European Community introduced a scheme (STABEX-LDC-ACA) for non-ACP least developed countries, but transfers under it have been relatively small.

VIII. THE ENVIRONMENT

69. International concern and action on the environment have intensified since the adoption of the Declaration. The United Nations Conference on

Environment and Development held in Rio de Janeiro in June 1992 was a landmark in the international community's quest for the solution of a major set of issues of world-wide concern. As the Secretary-General of the Conference said, "The agreements reached at Rio represent a remarkable achievement by any standard despite the fact that they did not meet our hopes and expectations in all areas" (see E/1992/SR.32).

70. Largely as a result of the Conference, a greater understanding exists that revitalization of economic growth and development is directly linked to protection and enhancement of the environment. The adoption of the Rio Declaration and Agenda 21 (see A/CONF.151/28, vols. I-III) and international conventions on climate change and biodiversity are a direct manifestation of the global commitment to assist developing countries in accelerating their economic development and improving their environmental situation. Despite this promising outcome, however, there is still a wide gap between the plans and programmes approved at the Conference and the financial resources available to carry them out.

71. Governments, the bodies of the United Nations system and other international institutions have made strides in designing and implementing policies, procedures and programmes that promote environmental protection in the context of ongoing development assistance activities. Over the past several years there has been a growing consensus and movement towards intergovernmental cooperation and agreement on specific environmental management issues of local, regional and global importance. Steady scientific and technological progress has resulted in improved and cleaner technologies and processes that conserve resources. In many cases, however, these processes are still limited to the developed countries and more determined efforts are required to ensure that developing countries share their benefits.

72. To achieve a sustainable balance between environment and development and to ensure healthy growth, many structural issues must still be tackled, such as consumption and production patterns both in developed and developing countries; population growth and demographic trends; trade, debt and alleviation of poverty; and modes of governance, among others. The prospects for economic revitalization and environmental protection depend on a multifaceted and integrated approach that combines the efforts of governments, international institutions and the non-governmental community, including private enterprise.

IX. SCIENCE AND TECHNOLOGY

73. In the Declaration the Assembly stressed the development of the endogenous scientific and technological capacity of the developing countries as a key factor in their economic and social development. There is an increasing awareness among the developing countries of the critical need for enhancing such capacity. As multifaceted and interdisciplinary areas, science and technology are also being dealt with by a number of bodies of the United Nations system.

74. To foster endogenous capacity-building in science and technology in developing countries, a series of pilot projects has been initiated by the United Nations in a number of countries to examine, through critical diagnostic studies, how science and technology can and should be brought into the mainstream of national economic development. The projects involve national policy dialogues among planners, policy makers, administrators, bankers, industrialists and entrepreneurs as well as scientists and technologists.

75. The development and the transfer to developing countries of environmentally sound technology are acquiring particular importance in the context of the United Nations Conference on Environmental Development process. The crucial issues being addressed in the international debate are how to promote and transfer environmentally sound technologies to developing countries under conditions that are fair and affordable; how to support efforts of developing countries to make effective use of those technologies; and how to assist them to bridge the gaps in scientific knowledge and technical know-how between the suppliers and the recipients of technology.

X. INTEGRATING THE TRANSITION ECONOMIES INTO THE GLOBAL ECONOMY

76. The wholesale transformation of the former European planned economies envelopes virtually all aspects of these societies. As far as their economic affairs are concerned, these economies aim at instituting a western-style market economy with considerable liberalization of the trade and foreign exchange regimes. That objective in particular presents opportunities and challenges to the global community, including developing countries.

77. The liberalization of these economies will eventually result in merging them with the global economy. This will occur through various channels. One will be the conventional exchange of trade and services and the mobility of production factors, notably capital flows into these countries The other will be their participation in the global economic organizations. Finally, the opening up of these countries will inevitably entail a remaking of the regional organizations, notably on the European continent, partly because of the disappearance of the Council for Mutual Economic Assistance (CMEA) and the emerging rapprochement of the transition economies toward the European Community.

78. The opening up of the economies in transition has been accompanied by their re-emergence in the international arena. For those countries that were members of international economic organizations, it has entailed a strengthening of their cooperation and participation in these organizations. Others have sought regular membership in these organizations.

79. Thus all countries of eastern Europe, including the Baltic States, are now members of IMF and the World Bank; all of the Soviet successor republics have joined recently. Except Albania and Bulgaria, all countries of eastern Europe are Contracting Parties to GATT and participate actively in it.

Negotiations about Bulgarian accession, first requested in 1986, have received a new impetus. Countries that during their planning period held a less than equivalent full status in GATT (such as Czechoslovakia, Hungary, Poland and Romania) have by now regularized their status or are in the process of renegotiating it. The Russian Republic has assumed the observer status of the former Soviet Union. Some of the other successor republics have also expressed interest in the observer status.

80. From the very beginning the countries with economies in transition have sought a formal rapprochement with the European Community and the European Free Trade Association (EFTA). The collapse of CMEA greatly increased the need for closer links with western Europe. In the case of the eastern European countries, including the Baltic States, as well as some of the successor republics of the Soviet Union and Yugoslavia, the ambition has been eventually to obtain full membership. The European Community has resisted this for its own reasons and offered instead to negotiate so-called "Europe" agreements, which would give those countries a special association status. This involves notably the establishment of differential trade liberalization for most manufactures ("sensitive" products and agriculture being dealt with separately) to the benefit of the associate. Czechoslovakia, Hungary and Poland have already obtained this status. They have negotiated a similar instrument with the EFTA members. Negotiations with some of the other countries, notably Bulgaria, are under way.

81. For some of the successor Soviet republics it may be unrealistic to aspire to a special association status with either the European Community or EFTA, and so these countries have negotiated, or are in the process of negotiating, special trade and cooperation agreements, particularly with the European Community.

82. These arrangements may lead to some diversion of trade in favour of Western partners, chiefly western Europe. Its direct effect on industrial countries is likely to remain small, given the scale of operations. More important are the repercussions in terms of trade, financial flows and development assistance for most of the developing countries that used to have close relations with the CMEA or some of its former members.

83. The collapse of intragroup trade has only to some extent been offset by a spectacular rise in trade with market economies, particularly western Europe. But current accounts of the transition economies remain shaky in part because of debt obligations. The ability of these countries to grow out of their profound economic depression in the near term is still fragile. None the less, Czechoslovakia and Poland have been able to sustain their limited domestic convertibility and Hungary has continued to make progress with its trade and foreign exchange liberalization. Some of the successor Soviet republics, notably Estonia and the Russian Federation, are currently undertaking actions that, with adherence to proper policies, should in time enable them also to benefit from limited domestic convertibility. This in turn should facilitate access to these countries' markets for all outsiders, including developing countries. However, because the institutional

infrastructure for smoothing trade among autonomous agents is as yet very imperfect in the countries with transition economies, developing countries may have to make an extra effort to gain a foothold in eastern markets. Some of the more advanced developing countries, notably the Republic of Korea and Taiwan Province of China, have already succeeded in this endeavour. Developed countries, on the other hand, do have the institutional infrastructure, for example, to grant export credits and export guarantees, and are therefore better positioned to enter the markets of the transition economies.

84. The eastern European countries have been pursuing a policy of much easier access of foreign capital to their markets, including through formal efforts to privatize the vast bulk of state-owned assets. As a result, the pace of foreign direct investment flowing into selected eastern countries, notably Czechoslovakia and Hungary, has recently increased. Inflows of other funds from abroad remain limited to scattered bond flotations, very small commercial bank lending, some official transfers in the context of western assistance to the transition and emergency assistance.

85. But the overall volume of such capital inflows is still quite modest in terms of both global capital flows and the resources that will be required to revive and bolster these economies. To the extent that fundamental economic, political and social stability can be regained in these countries, they can be expected eventually to become significant havens for foreign direct investment, including from the more advanced developing countries.

XI. REDUCTION OF MILITARY EXPENDITURE

86. In the Declaration the Assembly called for countries to seek to reduce expenditure for military purposes, thereby opening up the possibility of enhanced spending on social and economic development for the benefit of all countries, in particular the developing countries.

87. As the countries involved in the cold war confrontation in Europe accounted for about 80 per cent of global military spending, the end of that confrontation has given rise to a fall in global military spending in real terms. The expenditures of the North Atlantic Treaty Organization fell by 3.5 per cent between 1989 and 1990 and those of the former Soviet Union's by 28 per cent. 23/ Substantial declines were also recorded in the other countries with economies in transition.

88. Further declines in military expenditure can be expected in those countries in the next few years. In the case of the countries with developed market economies, that is largely as a result of a reduction in the external military threat, which has removed much political support for military expenditure, and, in the case of the countries with economies in transition, by a desire to change from military to civilian production in order to boost production of consumption goods at a time of wrenching economic change.

89. There are several reasons for guarded optimism that the present decreases in military expenditure will be permanent and will result in enhanced spending on social and economic development, including that of the developing countries.

90. The early years of the decade have seen a sharp fall in arms sales to developing countries. It was estimated that total sales to the developing countries by the United States, the Soviet Union, France and China fell between 1990 and 1991 by 40 per cent, 55 per cent, 87 per cent and 86 per cent respectively. 24/ These figures for arms sales reinforce the picture that emerges from trends in military spending. Very substantial decreases in spending were recorded in many Latin American countries, including those with the largest military expenditures - Argentina, Brazil and Chile. In countries of sub-Saharan Africa, military spending also appears to be declining. These two regions, however, account for slightly more than 3 per cent of total global military expenditure. In Asia outside the Middle East, military spending increased between 1989 and 1990. In the Middle East, military expenditure was largely determined by the reaction to Iraq's invasion of Kuwait, and a clearer picture of present trends should emerge with time.

91. The end of the cold war has resulted in a one-world economy in which the international financial institutions are approaching universal membership and donor countries are becoming less concerned with security considerations in the provisions of assistance. In these circumstances, such factors as democratization, respect for human rights and the appropriate priorities in domestic budgets between military and social spending are assuming greater importance in decision-making by bilateral and multilateral financial institutions.

92. There is, thus, a growing consensus that domestic spending priorities should be shifted towards the social and economic areas and away from military spending. Although, there is as yet little substantial progress at the international level on a financial mechanism for channelling resources released by military spending towards development, such a shift is implied in the recognition that, in a world of constrained resources, the military sector contains the largest bundle of resources available for the alleviation of the many diverse military and non-military threats to security. Experience has shown, however, that the short-run difficulties of switching resources from military to civilian uses are far greater when the economy is stagnating and creating few extra jobs, as is the case in many industrialized countries at present, than when the economy is growing strongly and generating employment opportunities for the manpower released from military uses.

XII. THE ROLE OF THE UNITED NATIONS SYSTEM

93. In the Declaration the Assembly emphasized the role of the United Nations system in international cooperation for revitalizing growth in the 1990s and called for increased effectiveness of the Organization.

94. Largely owing to the end of the Cold War and the dramatic changes in eastern Europe and the former Soviet Union, perceptions of the role of the United Nations have been undergoing a remarkable transformation over the past two or three years, and intergovernmental efforts to make the Organization more effective and efficient have been intensifying. The process of redefinition of its role continues and changes needed in its organizational structure are still being examined in the context of an increasing realization that the political, security, social and economic aspects of the world development cannot be dealt with in isolation of each other but must be treated in an integrated manner. In many parts of the world, revitalization of growth cannot be achieved without a solution to the security and ethnic concerns and a myriad other socio-political problems. However, some of these problems will remain beyond solution in the absence of economic development. Peace-keeping has a direct bearing on opportunities for development, while development contributes to harmony. The role of the United Nations is beginning to be viewed in this context.

95. At the same time, there is an increased recognition of the need for a clearer division of responsibilities among the various bodies of the United Nations system. The effectiveness of the system will greatly depend on it.

96. Some of these issues are now under examination. The high-level segment of the substantive session of 1992 of the Economic and Social Council was devoted to the theme "Enhancing international cooperation for development: the role of the United Nations system". The Council has set up an ad hoc working group to examine the various proposals on the theme, including the proposals presented at the session by member States and the report of the Secretary-General on the topic (E/1992/82 and Add.1).

XIII. CONCLUSIONS

97. Only a little over two years have passed since the adoption of the Declaration. The results have been mixed. Positive results have been achieved in several areas which the Declaration considered important for strengthening international cooperation. Many developing countries have instituted or continued with major economic reforms, adopted more market-friendly policies and improved the atmosphere for investment. Yet there have been major disappointments. While perceptions and awareness of old and new problems, particularly poverty eradication and environmental protection, have widened and there is more consensus on the path to be followed, the gap between international commitments made and action taken by some of the key actors has been large.

98. In the early 1990s, a large number of countries took major new initiatives for reform and adjustment, directed to sound macroeconomic management and trade liberalization as called for in the Declaration. Some progress has been made towards the solution of the debt problem of the developing countries, though further efforts are still needed. Countries with economies in transition are continuing efforts to integrate themselves into

the world economy. World military expenditure has been declining, creating new potentials for economic and social development.

99. Yet a commensurate international initiative to create a supportive economic environment has been lacking, and unforeseen problems have emerged. The economies of most of the industrialized countries continue to stagnate and the medium-term prospects are for slow growth. Many of those countries face major social problems, largely related to economic decline and increasing unemployment. Partly as a result, international economic cooperation to revitalize growth in developing countries has lacked the momentum envisaged in the Declaration. The economies in transition have suffered unprecedented falls in output and standard of living and their revival has proved far more difficult than previously thought. They are also unlikely to be a stimulus to world economic growth soon. The stalemate in the Uruguay Round has been a major failure. It casts doubt on the future of the multilateral trading system and inhibits trade related investment. Slow economic growth and fiscal disequilibria have made the peace dividend harder to reap.

Notes

1/ It has been only a little over two years since the Declaration was adopted. This is too short a time for a definitive evaluation of action taken and policy changes in the various fields of international economic cooperation. Moreover, many of the issues dealt with in the Declaration are of medium- or long-term nature where progress in the short run is not easy to measure. While some of the trends of recent years can be described rather unambiguously, on some issues the conclusions of the report can only be broad and tentative. Most of the major changes in the world economic and social situation are analysed in reports produced by the United Nations system. The present review is largely based on these reports. A considerable part of the assessment in economic areas is based on the World Economic Survey 1992 (United Nations publication, Sales No. E.92.II.C.1), with information updated where possible.

2/ IMF, World Economic Outlook, May 1992.

3/ IMF Stand-by, Extended Arrangements, Structural Adjustment Arrangements and Extended Structural Adjustment Arrangements (source: IMF International Financial Statistics, January 1992).

4/ Includes sector adjustment loans (source: World Bank, Adjustment Lending Policies for Sustained Growth. Policy and Research Series 14; World Bank, Annual Report 1991).

5/ See World Economic Survey 1992 on adjustment and reform efforts in Africa.

6/ IMF, World Economic Outlook, May 1992, chap. III.

7/ World Economic Survey 1992, table A.14, and Economic Commission for Latin America and the Caribbean, Preliminary Overview of the Economy of Latin America and the Caribbean, 1991.

8/ World Economic Survey 1992, op. cit.

9/ Between September 1986 and April 1991, over 30 developing countries undertook unilateral trade liberalization initiatives. World Economic Survey 1992, p. 59.

10/ The only notable instances of decline in net enrolment ratio for primary education during the period 1980-1988 were Central African Republic, Guinea Bissau, Mali, Morocco, and the United Republic of Tanzania. Source: United Nations, Report on the 1993 World Social Situation (forthcoming).

11/ For a brief description of the procedures, see World Economic Survey 1991 (United Nations publication, Sales No. E.91.II.C.1), pp. 157-158.

12/ See World Bank, World Debt Tables 1991-1992, vol. 1 (Washington, D.C.: December 1991), p. 27.

13/ World Economic Survey 1992, table A.28. The figures are calculated on financial basis. The average outflow during 1987-1989 was $18 billion. The figures on expenditure basis (i.e. taking changes in reserves into account) are higher and show a continuing outflow (of $13 billion in 1991).

14/ Among the small donors whose ODA has increased rapidly, although from a small base, during the late 1980s are Finland, Portugal, and Spain. Finland's ODA/GNP ratio reached 0.63 in 1990. Among the large donors, even Japan, which has increased ODA at a rate of 7 per cent a year in real terms over the latter half of the 1980s, would attain an ODA/GNP ratio of just over 0.40 by the mid-1990s if its past rate is maintained. The average for the DAC countries is heavily influenced by the United States ODA/GNP ratio which was around 0.21 in 1970 and remained at about the same level in 1990 and 1991.

15/ UNCTAD, The Least Developed Countries, 1991 Report (TD/B/1312), 1992.

16/ OECD, Development Cooperation, 1991 Report.

17/ World Economic Survey 1992, table A.34. The figure excludes commitments of United Nations agencies and other non-financial international organizations.

18/ The quota increase is linked with a proposal to amend the Fund's Article of Agreement. Both were held up in the United States Congress until August 1992, when the House of Representatives approved them. The Senate's approval is expected.

19/ General Agreement on Tariffs and Trade. GATT Activities, 1990.

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20/ UNCTAD. Analytical Report by the UNCTAD secretariat to the eighth session of the Conference (TD/358). Most of the paragraph is based on that report.

21/ IMF, Annual Report 1991. The number relates to financial year ended 30 April 1991.

22/ Unlike in previous Lomé conventions, STABEX transfers under Lomé IV are all in grant form.

23/ All figures from International Institute for Strategic Studies, The Military Balance, 1991-1992, Brassey's, London 1991, pp. 212-215.

24/ Figures from the Congressional Research Service, reported in The New York Times, 21 July 1992.
