UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/51/270
8 August 1996

ORIGINAL: ENGLISH

Fifty-first session
Item 98 (a) of the provisional agenda*

SUSTAINABLE DEVELOPMENT AND INTERNATIONAL ECONOMIC COOPERATION: IMPLEMENTATION AND FOLLOW-UP TO MAJOR CONSENSUS AGREEMENTS ON DEVELOPMENT

Implementation of the Declaration on International Economic Cooperation, in particular the Revitalization of Economic Growth and Development of the Developing Countries and the International Development Strategy for the Fourth United Nations Development Decade

Report of the Secretary-General

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96-20244 (E) 300996 011096

I. BACKGROUND

1. The Declaration on International Economic Cooperation, in Particular the Revitalization of Growth and Development of Developing Countries was adopted by the General Assembly in 1990 at its eighteenth special session. 1/ Later that year, the International Development Strategy for the Fourth United Nations Development Decade was adopted by the Assembly at its forty-fifth session. 2/ Both of these resolutions, while deploring the uneven and often disappointing growth performances of the 1980s, stress the need to renew the growth of the world economy, and especially to accelerate development in the developing countries through strengthened international cooperation. In 1994, the General Assembly requested a comprehensive and analytical report, to be submitted to the Assembly at its fifty-first session, "for the purpose of reviewing and appraising in 1996 the implementation of the commitments and agreements of the Declaration and the Strategy, with particular emphasis on those commitments and agreements that are not fully implemented, and to identify the constraints to implementation". 3/ The present report has been prepared in response to that request.

2. The Declaration on International Economic Cooperation was adopted by the General Assembly in the spring of 1990, as a response to the fact that the economic and social progress that had taken place in the 1970s had come to a halt in many developing countries during the 1980s. According to paragraph 12 of the Declaration, therefore, the "most important challenge for the 1990s is the revitalization of economic growth and social development in the developing countries, which calls for sustained growth of the world economy and favourable external conditions. This major challenge has to be addressed in the context of the increasing interdependence and integration in the world economy".

3. The International Development Strategy for the Fourth United Nations Development Decade incorporates many of the principles contained in the Declaration. It, too, aims to ensure that the 1990s are a decade of accelerated development in the developing countries and strengthened international cooperation. Although the Strategy does not seek to establish quantitative targets to be attained by the developing countries as a whole, it not only touches upon many of the developmental concerns of the United Nations system, including, for example, improved health, special measures for women and children, and protection of the environment, but also singles out six interrelated goals:

(a) Heightened economic growth, especially in the developing countries;

(b) Responsiveness to social needs (especially, poverty reduction, human resources and skills development, protection of the environment);

(c) Conducive international finance and trade systems;

(d) A stable world economy through sound macro-management (the maintenance of internal and external balance);

(e) A strengthening of international development cooperation;

(f) Special efforts on behalf of the least developed countries.

4. The developments of the first half of the 1990s thus need to be assessed vis-à-vis these six stated goals or objectives.

II. POLICY CONCERNS

5. The first half of the 1990s - the time-frame of the present report - has been characterized by a number of idiosyncratic trends. Arguably the most important of these has been the increased globalization and liberalization of the world economy. The former has taken several forms. First, there is the fact that international trade has been growing at a rapid rate. In just five years, the total value of world merchandise exports increased from 13 per cent of gross world product in 1990 to 17 per cent in 1995. Secondly, international capital flows have increased dramatically in this same five-year period. For example, foreign direct investment in developing countries more than tripled between 1990 and 1995. Thirdly, firms are becoming increasingly "internationalized", setting up branches wherever costs are lowest and often using multiple production sites to avoid non-tariff barriers and minimize production costs. Fourthly, regional trading arrangements or trading blocs continue to proliferate. Lending special significance to trade concerns at this time is the fact that this is the first such assessment since the follow-up activities associated with the conclusion of the Uruguay Round of multilateral trade negotiations - in which developing countries played a pivotal role.

6. A second characteristic of the first half of the Decade has been the continuation of relatively high real interest rates in industrialized countries. While long-term rates have actually fallen since the 1980s, 4/ historically they remain at quite high levels - especially when compared to the post-Second World War period until the end of the 1970s.

7. A third notable feature of the first half of the 1990s has been a resurgence of faith in the efficacy of the market. Thus, in an increasing number of countries, free-market advocates have urged Governments to be non-interventionist and to concentrate only on providing public goods and "getting the basics right". The latter means that Governments are tending to focus only on the provision of public goods - such as defence, infrastructure and basic education - while avoiding high tax rates, price controls or any other significant distortion of relative prices.

8. Fourthly, a new orthodoxy as to what constitutes an effective development policy has emerged. What is remarkable about this current vogue in economic development policy, which applies both to the developing economies and to economies in transition, is the extent of convergence that has evolved as to what constitutes an "appropriate" or efficacious economic strategy. Termed the "Washington consensus", this list of policy desiderata emphasizes fiscal rectitude, undistorted prices and limited government intervention. 5/

9. The policy prescriptions of the Washington consensus were formulated in the wake of the early economic successes of the four East Asian newly industrialized economies of Hong Kong, the Republic of Korea, Singapore and Taiwan Province of

China. Clearly, their achievements cast doubt on the export pessimism that had led policy makers to pursue import-substitution policies. Moreover, in seeking a new "recipe for success", the view emerged that the impressive growth rates of these Asian economies could be attributed to market-oriented policies and the reduced role of government intervention. 6/

10. However, in the light of the disparate experiences of developing countries in the first half of the Decade, it has become clear that there can be no such universal policy panacea. Moreover, what needs to be appraised at this juncture is not so much the outcome of countries' development policies, but the efforts being undertaken by them and by developed countries and the international community on their behalf. The reason for this focus is that development policies, by definition, are long-run initiatives. The five-year period under review is thus too short a time-span in which to see final results. By the same reasoning, mid-Decade is too early for a definitive evaluation.

11. At this point what is clear is that exogenous factors have both helped and hindered development efforts. Furthermore, initial conditions differed among countries. 7/ In addition, the policies pursued by developing countries have differed dramatically. Some have followed the tenets of the "Washington consensus" conscientiously. Others have had "stop-go" policies. Development strategies have thus differed greatly and their eventual outcomes are far from predictable. The one certainty is that "success" or "failure" cannot be expressed by one magic number, such as gross national product (GNP) per capita. Development is far too rich and complex a process to be described by such a simplistic indicator.

III. 1990-1995: THE "BACK-DROP"

12. The growing interdependence between countries implies that the prognosis for any individual economy is acutely sensitive to overall global conditions, as well as to its subregional and regional economic environment. From this perspective, the current state of the world economy must be factored into any assessment of the current situation and future outlook of developing countries.

13. For the world economy as a whole, the first half of the 1990s represented a clear-cut slow-down from the growth rates of the 1980s. Whereas output grew at just under 3 per cent per annum, on average, in the 1980s, it increased only about 1.4 per cent per annum between 1991 and 1995. The deceleration emanated from two sources: first, a recession in the first few years of the 1990s in the majority of the developed economies and, secondly, the dramatic drops in output in the economies in transition as their transformation processes took hold in 1989 and 1990.

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Table 1. Growth of world population, output and per capita GDP, 1980-1995

	Annual average rates of growth								
	GDP			Population			GDP per capita		
	1981-1990	1991-1995	1995-1996	1981-1990	1991-1995	1995-1996	1981-1990	1991-1995	1995-1996
World	2.9	1.4	2.5	1.7	1.6	1.5	1.2	-0.2	1.0
Developed economies	2.9	1.5	2.0	0.6	0.6	0.6	2.3	1.0	1.4
Economies in transition	2.0	-7.7	2.0	0.7	0.2	-0.2	1.3	-7.9	2.2
Developing countries	3.1	4.8	5.5	2.1	1.9	1.6	1.0	2.9	4.0
Latin America	1.2	2.7	2.5	2.1	1.9	1.8	-0.9	0.8	0.8
Africa	2.0	1.6	4.3	2.9	2.9	2.8	-0.9	-1.3	1.5
West Asia	-1.3	2.3	3.0	4.0	2.9	2.7	-5.3	-0.6	0.3
South and East Asia	6.0	6.0	6.8	2.1	2.0	1.3	3.9	4.0	5.0
China	9.0	11.3	9.0	1.5	1.1	1.0	7.5	10.2	8.0
Mediterranean	2.1	-0.9	3.5	1.8	1.4	1.5	0.3	-2.3	2.0
Memo items:									
Sub-Saharan Africa	1.8	1.0	5.0	3.1	3.1	3.0	-1.2	-2.0	2.0
Fifteen heavily indebted countries	1.1	2.2	2.8	2.2	2.0	2.0	-1.1	0.2	0.8
Least developed	2.0	2.0	4.8	2.5	2.9	2.9	-0.5	-0.9	1.9

Source: World Economic and Social Survey 1996 (United Nations publication, Sales No. E.96.II.C.1), tables I.1. I, 3, A.1 and A.4 and estimates of the Department for Economic and Social Information and Policy Analysis.

14. Despite the backdrop of more sluggish global growth, developing countries as a whole have made substantial progress during the first half of this decade. As a group, these economies - whose output increased at roughly 3.1 per cent per year during the 1980s - registered a gross domestic product (GDP) growth rate of 4.8 per cent per annum in the first half of the 1990s. A further indicator of the situation of developing countries is the number of such economies with rising per capita GDPs. Thus, from 1990 to 1994, GDP per capita rose in 50 to 60 of the 93 developing countries whose trends are regularly monitored. These economies accounted for roughly four fifths of the developing countries' total population. In 1995, the phenomenon of rising per capita output became more widespread: 71 economies enjoyed rising GDP per capita, or almost 90 per cent of the total population of developing countries. For 1996, the comparable figure is expected to be 75 countries, accounting for 96 per cent of their total population 8/. There are thus two striking features of the present world economic situation - both of which should encourage optimism. First, economic growth has become more prevalent. Secondly, such growth - at mid-Decade - has the potential for sustainability in a significant number of countries. 9/

15. The "success stories" of south-east Asia, as well as China, are thus not isolated phenomena. The least developed countries, for example, breaking away from the low growth rates that have attended them since the mid-1980s, began to make significant growth gains in 1995 and are expected to grow again in 1996. At least 21 out of the 48 least developed economies registered growth in per capita GDP in 1995, a trend likely to continue through 1996 - a vast improvement over the experience of the early 1990s, when only some one quarter of this group registered positive growth rates.

16. Nevertheless, while the Decade's mid-point appears to mark a turn-about of sorts for a number of developing economies, the fact remains that, in many developing countries, the growth of per capita GDP has been small and average levels of per capita output in most regions still remain below their levels in real terms in 1980. This holds true, for example, in Africa (where per capita GDP in 1988 dollars stood at $657 in 1995, as compared to $721 in 1980), in Latin America and in West Asia. South-east Asia and China are the two dramatic exceptions. 10/

17. Moreover, because South and East Asia, together with China, currently account for some 50 per cent of the output of developing countries as a whole, the very high growth rates that these economies have achieved in the past few years heavily influence the aggregate figures, concealing dramatic regional and national differences in economic performance.

18. Africa, in particular, bears mention because, as a region, it is currently experiencing its fastest economic growth since the start of the Decade. Moreover, the improvement was fairly broadly based. About a dozen countries in Africa (including Angola, Benin, Botswana, Burkina Faso, Chad, Côte d'Ivoire, Equatorial Guinea, Ethiopia, Ghana, Kenya, Malawi, Mauritius and Togo) recorded GDP growth rates of 5 per cent or higher in 1995 - owing, in part, to higher prices and stronger demand in international commodity markets. The prospects, furthermore, remain good, and in 1996 Africa is expected to see an increase in GDP per capita for the first time since 1985 - thanks to favourable external conditions and an ameliorated policy environment. Nevertheless, as will be discussed below, most African countries are among the poorest in the world: 33 out of the 48 least developed economies are in Africa.

19. International trade has been one of the most buoyant elements of the world economy since the start of the Decade, growing by 7.5 per cent per annum between 1990 and 1995. With developing economies now accounting for more than 40 per cent of world GDP, they have - as a concomitant - also become increasingly significant actors on the world trade scene. For example, Latin American exports and imports grew by 9 and 14.5 per cent, respectively, over this half decade. China's exports increased by 19 per cent, while those of the six East Asian traders - Hong Kong, Malaysia, the Republic of Korea, Singapore, Taiwan Province of China and Thailand - grew by 14 per cent. 11/

20. The volume of world merchandise exports is expected to rise above 7 per cent in 1996, almost three times the increase in world output and the sixth consecutive year in which trade growth will have exceeded output growth by a wide margin. 12/ A notable variable in the phenomenon of merchandise trade continuing to outstrip output growth by a meaningful amount has been the rapid

expansion in developing countries of processing trade - in other words, the assembly of manufactured goods for re-export using components and materials imported under special tariff regimes. For example, processing and assembly factories in China accounted for nearly half that country's exports in 1995 and about 45 per cent of its imports. Trade has also been boosted greatly by the information technology revolution. The value of exports of office and telecommunications equipment rose by more than one quarter in 1995, now accounting for some 12 per cent of global trade. Moreover, in 1993, developing economies supplied 22 per cent of world exports of office machinery and data-processing equipment, and 33 per cent of telecommunications equipment - compared with only 6 and 12 per cent, respectively, in 1985. 13/

21. A significant number of developing countries - especially least developed countries, as will be discussed below - remain economically dependent on their ability to export a small number of non-fuel commodities. The international prices - in dollar terms - of these non-fuel commodities remained quite depressed through much of the 1980s, though they recovered somewhat at the end of that decade. Moreover, the beginning of the 1990s once again saw depressed commodity prices, though there has been a "mini commodity boom" since the second half of 1993. However, average dollar prices can be a misleading measure by themselves, as the value of the dollar vis-à-vis other currencies shifts and the prices of other goods, in dollar terms, change. 14/ Of course, what is important in this story - whichever measure is used - is not the price levels per se. Rather, what is significant is the tendency of commodity prices to be extremely variable, combined with the fact that the economies of several developing countries are disproportionately dependent on a small number of non-fuel primary commodities for their export earnings - including, for example, Chile's heavy reliance on copper exports, El Salvador's on coffee, or Papua New Guinea's on copper and gold.

22. While developing economies' exports are growing, since the beginning of the decade they have also been significant importers, in some instances running substantial trade deficits vis-à-vis the industrialized economies. 15/ Between 1990 and 1995, import growth exceeded export growth in Latin America and Africa and, to a lesser degree, in parts of Asia.

23. Another notable global trend - one specifically related to the post-"cold war" era - has been the decline in military spending that began in the mid-1980s and continued through 1995. 16/ This has potentially significant implications for both non-military spending and fiscal adjustment. Thus, world military spending declined some 1.3 percentage points of GDP between 1985 and 1990, with declines in all regions and in both developed and developing countries. More recent data for the period 1991-1995 indicate that this downward trend has continued. Information for 130 countries suggests that military spending worldwide dropped to a low of 2.4 per cent of world GDP in 1995, down from 3.6 per cent in 1990. 17/

24. This dramatic reduction in military spending could imply large and growing global resource savings, generally referred to as the "peace dividend". For example, if military expenditure as a share of GDP had been maintained at its 1990 level, spending in 1995 would have been some 345 billion dollars higher. Similarly, if the ratio of military expenditure to GDP had continued at its 1985

level, such spending would have been at least 720 billion dollars higher in 1995.

25. The issue, of course, is how countries have used the "peace dividend". While this question is a complex one, there is some indication that those countries that made sharp cuts in military spending also tended to reduce their non-military spending, as well as their overall fiscal deficits. This suggests that the "peace dividend" may have been used, in part, to finance social expenditures and, in part, returned to the private sector, potentially boosting private investment. Conversely, countries that raised military spending also tended to increase non-military expenditure, as well as their fiscal deficits, while cutting capital spending - suggesting that military expenditure may "crowd out" both private and public investment. 18/

IV. PERFORMANCE OF THE DEVELOPING COUNTRIES

26. In the first half of the Fourth United Nations Development Decade, developing countries as a group grew at almost three times their annual average rate of growth of per capita GDP in the 1980s - namely, 2.9 per cent per annum in contrast to a 1.0 per cent per year growth rate in the period 1981-1990. As is always the case, however, such averages mask great variations in individual situations.

27. Through 1994, many of the economies of Latin America and the Caribbean enjoyed far faster economic growth than they had experienced in the 1980s. Inflation fell to 25 per cent per annum by the end of 1995, a record low in the past 22 years and a significant achievement in the light of the region's not-so-successful attempts to control inflation in the past. However, a financial crisis hit Mexico in December 1994 and while the fallout was minimized to the extent possible - through concerted international efforts - there were, nonetheless, profound negative consequences. This took the form of an interruption of the economic recovery that the region had been experiencing since 1991. Almost overnight, the outlook changed.

28. In 1995, inflation fell dramatically in 14 of the 18 countries monitored. Argentina, in fact, currently has one of the world's lowest inflation rates. The exceptions were Bolivia, Costa Rica and El Salvador - in all of which inflation increased somewhat, reflecting fiscal imbalances - and Mexico, the only country in Latin America to experience a significant acceleration of its rate of inflation - from 7 per cent in 1994 to 52 per cent in 1995 - as a consequence of the devaluation of the peso and higher value-added taxes.

29. While the devaluation of the Mexican peso in December 1994 and the temporary reversal of capital inflows to the region triggered economic recessions in Mexico and Argentina (in the latter case, putting an end to substantial rates of growth), the reverberations from the Mexican financial crisis spread even further. The tight monetary policies adopted in Brazil - in an attempt to contain the deterioration of the country's trade balance and prevent runs on its currency - led to a sharp deceleration of growth in that country.

30. Other economies in the region were less affected by the volatility of short-term capital flows - either because they had not attracted such flows in large amounts or because they did not have extensive trade links with either Mexico or Argentina. A case in point is Chile, which registered the fastest rate of growth in the region, thereby continuing an impressive performance.

31. While Argentina and Mexico may be recovering as of mid-Decade, several of the economies of the region - including Brazil, Colombia and Peru - may feel the fallout from the Mexican financial crisis for several years to come. In point of fact, the situation in the region illustrates the extreme vulnerability of many developing countries to exogenous shocks.

32. The situation at mid-Decade in many of the African economies epitomizes both the advantages of well-conceived adjustment policies (such as the devaluation of the CFA franc in January 1994), the importance of international measures (such as debt relief), as well as the obvious advantages of a favourable external environment.

33. Thus, in 1996, Africa is expected to see an increase in per capita GDP for the first time since 1985. Some of this growth emanates from the fact that progress has been made in establishing macroeconomic stability in many African countries. As a consequence, consumer price inflation has exhibited a declining trend for the region as a whole. Zaire managed to reduce consumer price inflation from 23,000 per cent in 1994 to 542 per cent in 1995. Structural reforms are also progressing in many of the economies of the continent. Egypt, for instance, has undertaken a new privatization programme.

34. Economic performance, moreover, has generally improved in the franc zone since the devaluation of the CFA franc in January 1994. The region has benefited from favourable external trade conditions - of which it was better able to take advantage after devaluation - as well as from a surge in official and private inflows of financial resources. Several CFA countries thus registered growth rates as high as 5 per cent or more in 1995, including Benin, Burkina Faso, Chad, Côte d'Ivoire, Equatorial Guinea and Togo.

35. However, structural reforms have barely commenced and it is thus too early to gauge to what extent they will succeed in raising the long-term growth potential of these economies. What is clear at this point is the extreme sensitivity of Africa to its external environment. Much of the "success" of these economies at mid-Decade has been attributable to higher prices and stronger demand in international commodity markets, mainly from the developed economies which absorb roughly two thirds of Africa's exports. Thus, despite the current upturn, future economic performance remains in doubt - impeded by long-term structural constraints to development, such as poorly developed institutions, low levels of human capital development and unequal distribution of and access to resources, such as inputs and finance. An additional handicap is that African countries continue to suffer from high external indebtedness (see table 7).

36. In March 1996, the United Nations launched a system-wide special initiative on Africa aimed at surmounting a number of these constraints. Entitled the United Nations System-wide Special Initiative on Africa, this programme is the

system's most significant mobilization of support for Africa, as well as its largest coordinated effort. The Special Initiative will focus on areas such as basic health, basic education, water and sanitation. Its total cost is expected to be 25 billion dollars over a 10-year period - which will come mostly from the reallocation of existing resources at the national and international levels.

37. After experiencing negative rates of growth in the 1980s, higher oil prices and export revenues boosted economic recovery at mid-Decade in most of the oil-exporting economies of West Asia. However, efforts to implement economic reforms and reduce budget deficits constrained their growth. Meanwhile, in the region's oil-importing countries, strong growth in private investment and consumption helped economic recovery. Furthermore, the progress being made towards peace in the Middle East stimulated new investment, tourism and construction - particularly in Israel, Jordan and Lebanon.

38. A number of oil-exporting countries in the region - including the Islamic Republic of Iran, Kuwait, Oman, Saudi Arabia and the United Arab Emirates - have initiated reform programmes in recent years, involving measures to reduce budget deficits, restructure the public sector and promote private sector participation. Nevertheless, budget deficits are still large and there is a clear need to further rationalize public spending, to reform public enterprises, to reduce subsidies and to raise non-oil revenues.

39. In fact, despite efforts geared at reducing the dominant role of oil in the economy, the production structures of most of the countries in the region remain largely undiversified. This is particularly true of the oil-exporters - where oil provides more than 80 per cent of government revenues and accounts for close to 50 per cent of GDP. This high dependence on oil makes these economies extremely vulnerable to fluctuations in oil prices and affects not only the oil-exporters, but the oil-importers as well, through employment opportunities for their expatriate workers, workers' remittances and intraregional trade. Reducing this dependence is a task for the second half of the Decade.

40. South and East Asia and China have in recent years registered very rapid rates of growth. Even with growth rates moderating at mid-Decade, for most of these economies - including China, India, Indonesia, Malaysia, Singapore and Thailand - the task at hand is to restrain inflation while maintaining or strengthening economic growth. Such deceleration of economic activity as has taken place in recent years has been the result of tightening monetary policies in response to upward price pressures.

41. Much has been written both to explain the "success" of these rapidly growing Asian economies and seeking to use them as role models. Attention has been focused, for example, on China's "open door" policy, which led to high rates of foreign investment and exports. Economic liberalization and market reform, as well as flourishing export expansion, are the variables most frequently cited to illuminate the accomplishments of most of these economies. 19/ The reality is more complicated, however. In the Republic of Korea, for example, chemicals and heavy industry were protected from foreign competition in the 1970s. While there clearly are certain common denominators - such as incentives for investment, export promotion and diversification and a focus on developing human capital - the point has been made that one cannot

ascribe growth merely to getting certain fundamentals "right" ex ante. 20/ Nevertheless, countries seeking to emulate these Asian "miracles" can undoubtedly learn a great deal from the experiences of these countries. 21/

42. The Strategy singles out not only intensified economic growth, but also "responsiveness to social needs" as a basic development objective. As has been noted elsewhere, a nation's poverty level - or, conversely, its wealth - manifests itself through a wide range of indicators, including income level, health and educational standings, or access to goods and services. However, it is difficult to measure poverty in such a way as to capture its multidimensional nature and, therefore, a common marker of poverty has long been the income or consumption level of households. However, to get a fuller picture of poverty it is important also to take into account social indicators - such as life expectancy, infant mortality rates and school enrolment rates. 22/

43. Regardless of which specific indicators are used, two points are apparent. Social variables always shift slowly; progress on such fronts as life expectancy does not occur overnight. Nevertheless, tremendous strides have indeed been made over the last few decades in raising living standards in developing countries. For example, in the past quarter century, average per capita incomes have roughly doubled in the developing world - an attainment that took the United States of America almost 40 years and the United Kingdom of Great Britain and Northern Ireland some 60 years. Moreover, when income measures are supplemented with other measures of human welfare, it is clear that - on average - populations in developing countries are today living longer, healthier and better-educated lives than was the case a generation ago. Furthermore, they have greater access to services such as electricity and running water.

44. Significant progress has clearly manifested itself in various areas. For example, the infant morality rates for East Asia and the Pacific, as well as for South Asia, improved by roughly 25 per cent over the course of only a decade. In the Middle East and North Africa, progress was even more dramatic - namely, more than 40 per cent reduction in the infant mortality rate.

45. All in all, therefore, there has been a narrowing in the gap between "rich" and "poor" even over the past 10 years or so (see table 2). That being said, however, it is obvious that there are still dramatic variations between regions. For example, in 1993, the infant mortality rate for sub-Saharan Africa was almost three times that of East Asia and the Pacific. The rate for South Asia was more than three times that of Europe and Central Asia.

Table 2. Selected social indicators

	Infant mortality rate (Per 1,000 live births)		Life expectancy (Years)	
	1982	1993	1982	1993
East Asia and Pacific	48	35	65	68
Europe and Central Asia	33	24	68	69
Latin America and Caribbean	57	43	65	69
Middle East and North Africa	90	53	59	66
South Asia	110	84	55	60
Sub-Saharan Africa	112	93	48	52
Developing countries	71	54	61	65
OECD	20	7	75	77

	Gross primary school enrolment ratios (Percentage)	
	1982	1993
East Asia and Pacific	111	118 a/
Latin America and Caribbean	105 b/	107 c/
Middle East and North Africa	91	96 a/
South Asia	77	106
Sub-Saharan Africa	74	67 d/
Developing countries	95	107 c/
OECD	102	103

Source: Poverty Reduction and the World Bank: Progress and Challenges in the 1990s (Washington, D.C., World Bank, 15 April 1996), table 1.1.

a/ 1992.

b/ 1980.

c/ 1991.

d/ 1990.

46. The life expectancy indicators are less disparate. Nevertheless, life expectancy in South Asia and sub-Saharan Africa is substantially lower than in other regions. Similarly, gross primary school enrolment ratios differ significantly between regions, being notably lower in sub-Saharan Africa than in the rest of the world.

47. In fact, more than one fifth of the world's population lives on less than one dollar a day, according to a recent report on poverty. According to this study, the number of people living on less than a dollar a day increased between 1987 and 1993, reaching about 1.3 billion in the latter year. 23/

48. What this implies from an individual country perspective can be seen from table 3, showing those World Health Organization (WHO) members that have, or have not, achieved all three "health-for-all" targets. The three targets in the WHO strategy for health-for-all by the year 2000 relating to health status are: life expectancy at birth above 60 years; an under-five mortality rate below 70 per 1,000 live births; and an infant mortality rate below 50 per 1,000 live births.

Table 3. Number of WHO member States meeting the three health-for-all targets, by region

	Above all three targets	Below all three targets
Africa	4	38
Americas	25	2
Eastern Mediterranean	12	5
Europe	45	0
South-East Asia	3	4
Western Pacific	13	3

Source: The World Health Report 1996 (Geneva, World Health Organization), table A2.

49. While there are far too many countries to list individually, note should be taken of the fact that only Algeria, Botswana, Cape Verde and Mauritius in Africa meet all three WHO targets. 24/ The same holds true for the Democratic People's Republic of Korea, Sri Lanka and Thailand in South-East Asia. Conversely, only Bolivia and Haiti in the Americas have values below all three targets, as do Bangladesh, Bhutan, Myanmar and Nepal in South-East Asia. China, it should be pointed out, is categorized as a "Western Pacific" economy and is cited as fulfilling all three targets. Furthermore, a number of large economies - including Brazil, Egypt, Pakistan, Turkey, India and Indonesia, have not been classified - as they neither met all three targets, nor failed on all three counts.

50. The present report comes at a juncture which - depending on the perspective - is either extremely timely or inopportune in the extreme. The former viewpoint focuses on the fact that, at mid-Decade, the average annual rate of growth of per capita GDP for developing economies as a whole was almost three times the growth rate they registered in the 1980s - 2.9 per cent for the period 1991-1995 versus 1.0 per cent in 1981-1990. Moreover, forecasts suggest that healthy growth will continue through 1996. 25/ The latter viewpoint, based on a more pessimistic outlook, notes that, while the overall incidence of poverty is declining worldwide, the number of people living in poverty - however defined - continues to rise. 26/ The question, therefore, is whether current robust growth is an enduring trend - which will result in poverty reduction worldwide - or simply a short-run "blip", which will have little ultimate impact on global poverty.

V. ROLE OF THE INTERNATIONAL ENVIRONMENT

51. According to both the Declaration and the Strategy, the international community has an obligation to assist the developing countries on a number of fronts. Included here is financial assistance. Thus, the issue is what measures were taken, during the period 1991-1995, to support the developing countries with their debt and debt service obligations. Moreover, there is the question of whether resource flows were directed to developing countries to supplement their internal savings and provide capital for investment.

52. Assistance was also to be rendered to the developing countries on the trade front, through an increasingly open and liberal global trading system and improved market access. With the conclusion of the Uruguay Round, this appears to have transpired, though many instances of protectionism - especially in areas of concern to a number of successful developing country exporters - clearly remain. Such protectionist pressures may even be increasing at the present time. Moreover, regional economic integration schemes - which are not illegal standards, by the World Trade Organization (WTO) much as they were not illegal according to the General Agreement on Tariffs and Trade (GATT), having been sanctioned by article XXIV - should be trade-creating, rather than trade-diverting and should be building blocs to a more open trading system. While bloc formation has flourished in the first half of the 1990s, it is not clear that all these schemes meet these requirements. Efforts were also to be made to ensure that the terms of trade (especially, commodity prices) did not move in such a fashion as to hurt developing primary commodity exporters. Or, if they did decline, measures were to be taken to mitigate the problems caused by these adverse trends.

A. Trade

53. Three striking characteristics define the first half of the 1990s in the global trade arena. First, there is the ever-increasing integration of a number of developing countries into the world economy. A second pre-eminent development on the trade front since the last assessment has been the follow-up associated with the conclusion of the Uruguay Round of multilateral trade negotiations - in which developing countries have played a pivotal role, in

keeping with their growing importance in the world economy. And the third defining feature of this period, as far as the international economy is concerned, has been the continued proliferation of regional trading arrangements or blocs.

1. Increasing participation in world trade

54. "Export pessimism" dominated much developing country thinking in the 1970s and early 1980s, leading many developing economies to pursue inward-looking trade strategies and largely unsuccessful South-South regional trading arrangements. For the most part, this approach has, since the mid-1980s, been replaced by outward-oriented trade policies and increased global trade integration. 27/ For example, the ratio of world trade to GDP - one measure of integration - rose by 1.2 percentage points per annum during the period 1985-1994. This was three times faster than during the previous 10-year period and nearly twice as fast as in the 1960s. 28/ Developing countries as a group participated extensively in this "quickening" in the pace of integration. Nevertheless, certain countries have fared far better in this regard than have others. Overall, the share of developing country exports in total world exports rose between 1990 and 1994. However, averages clearly mask individual performances, which are far more varied.

55. One indicator seeking to assess integration trends is the "speed of integration" index. This measure is derived from changes - between the early 1980s and early 1990s - in four indicators: real trade to GDP, the share of inward foreign direct investment to GDP, institutional investor credit ratings, and the share of manufactures in exports. 29/

56. Carrying out this exercise yields striking disparities in developing countries' speeds of integration. 30/ Most of the fast-growing economies of East Asia have the highest speed of integration indices, as a result of exceptionally large increases in trade, manufactured exports and high foreign direct investment ratios. Economic reformers - such as Argentina, Chile and Mexico in Latin America, Morocco and Ghana in Africa, and Turkey in Europe - also record high indices. Conversely, the majority of low-income countries in sub-Saharan Africa, as well as many middle-income economies in Latin America (including Brazil, Colombia, Ecuador and Peru) and in the Middle East and North Africa (including Algeria and Saudi Arabia) fare poorly - as reflected by this index. Their median trade ratios and credit ratings have fallen, while median foreign direct investment ratios have either fallen or have been stagnant.

57. Another perspective from which to look at the issue of global "assimilation" is to observe the "top" exporters in world merchandise trade. Clearly, these slots will go to large economies, small ones finding it difficult to make much of a dent on global trade figures - even though their dependence on trade may be greater than is the case for some of the larger, more self-sufficient economies.

58. Thus, while developing countries in both 1985 and 1995 constituted 11 of the top 30 leading exporters, the first five "slots" have consistently been large, developed economies: the United States of America, Germany, Japan,

France and the United Kingdom of Great Britain and Northern Ireland. However, individual developing economies - such as China, Hong Kong or Taiwan Province of China - have made tremendous strides as regards export expansion so that, while there are 11 developing economies in the top 30 in both 1985 and 1995, those 11 accounted for 13.7 per cent of world exports in the former year and 20.5 per cent in the latter, an almost 50 per cent increase over the course of a decade.

Table 4. Leading developing country exporters in world merchandise trade, 1985 and 1995

1985			1995		
Exporter	Value (Billions of dollars)	Share (Percentage)	Exporter	Value (Billions of dollars)	Share (Percentage)
			Hong Kong a/	173.8	3.5
Top 10					60.5
Taiwan Province of China	30.7	1.6	China	148.8	3.0
Hong Kong a/	30.0	1.6	Republic of Korea	125.2	2.5
Republic of Korea	30.3	1.6	Singapore a/	118.6	2.4
China	27.3	1.4	Taiwan Province of China	111.4	2.2
Saudi Arabia	27.0	1.4	Mexico	79.8	1.6
Brazil	25.7	1.3	Malaysia	74.0	1.5
Top 20					80.0
Singapore a/	22.8	1.2	Thailand	55.8	1.1
Mexico	21.5	1.1	Brazil	46.8	0.9
Indonesia	19.7	1.0	Saudi Arabia	45.5	0.9
Malaysia	15.3	0.8	Indonesia	45.0	0.9
United Arab Emirates	14.4	0.7			
Share of the above in world		13.7			20.5
World	1 922.0	100.0	World	5 020.0	100.0

Source: Data for 1995 from WTO press release (PRESS/44), 22 March 1996; data for 1985 from GATT, International Trade 1985-86, appendix table A4.

a/ Includes significant trans-shipments.

2. World Trade Organization follow-up

59. It is perhaps indicative of the increased globalization of the world economy that all nations today have a major stake in the activities of WTO. Thus, developing countries accounted for more than 80 of the 106 members of WTO as of August 1995. 31/ Hence, a number of the organization's undertakings - which are both novel and only just beginning to click into place - are worthy of mention. Some of these, which are of particular concern to developing countries, will be noted.

(a) Trade dispute resolution

60. The new dispute settlement system of WTO is one of its more novel features. Not only is it reasonably swift, but it is also inherently difficult to thwart the process. Thus, generally less than 10 months after a dispute is brought to the Dispute Settlement Body of WTO, a report detailing the findings and conclusions of the case is adopted by the Body - unless there is a consensus against adoption. This system basically deprives an interested party of the ability to stall the process. It was precisely the fact that parties to trade disputes could obstruct the dispute settlement process that was viewed as a major weakness of the old GATT system.

61. Developing countries are increasingly utilizing the multilateral dispute settlement mechanism - much more so in WTO than was the case in GATT. For example, on 5 March 1996, the Dispute Settlement Body established two panels - at the request of the Philippines and Costa Rica, involving desiccated coconut and textile products, respectively. This raised the number of active panels to four - three of which involve developing country complainants. Also under panel examination is a complaint against the European Union by Chile and Peru relating to scallops, as well as a case disputing Japanese taxes on alcoholic beverages brought by Canada, the European Union and the United States.

62. The first panel report that was issued under WTO auspices - and that is currently under appeal - was in response to complaints by Brazil and Venezuela regarding United States' standards for reformulated and conventional gasoline. The first dispute brought to WTO - which was then settled bilaterally - pertained to a dispute between Malaysia and Singapore. The current situation is thus in notable contrast to the dispute settlement mechanism under GATT auspices, where the vast majority of cases were between developed countries. 32/

(b) Agriculture

63. Although the original GATT agreement applied to trade in agriculture, it did so ineffectively - especially as regards export subsidies. The Uruguay Round agreement thus sought to reform trade in agriculture, providing a basis for more market-oriented policies. Market access for agriculture is hence now governed by a "tariffs only" regime. Tariffs resulting from this "tariffication" process will be reduced by an average 36 per cent in the case of developed countries and 24 per cent in the case of developing countries. Reductions take place over six years for industrialized economies and 10 for developing. Least developed economies are not required to reduce their tariffs.

64. Meanwhile, domestic support measures are disciplined by reductions in the total aggregate measurement of support (total AMS). This is a means of quantifying the aggregate value of domestic support or subsidy given to each category of agricultural product. Commitments made entail a 20 per cent reduction in total AMS for developed countries over six years. For developing countries, the commitment is 13 per cent over 10 years, while there is no reduction required of least developed economies. 33/ Domestic support measures deemed to have a minimal impact on trade (termed "green box" policies) have been excluded from reduction commitments. Such policies include general government services - for example, in the areas of research, disease control or food security. Also included here are direct payments to producers - for instance, forms of direct income support that are not judged to encourage production, as well as structural adjustment assistance and direct payments under environmental and regional assistance programmes.

(c) Textiles/clothing

65. Since 1974, trade in textiles and clothing was largely governed by the Multifibre Arrangement (MFA). The MFA provided the basis on which many industrialized countries - through bilateral agreements or unilateral action - established quotas on imports of textiles and clothing from the more competitive developing countries. The integration of this sector into WTO disciplines was a much-hailed accomplishment of the Uruguay Round and is being implemented in stages over 10 years.

(d) Anti-dumping

66. Article VI of the GATT agreement allowed countries to apply anti-dumping measures on imports of a product whose export price was below its "normal value" 34/ if such dumping caused injury to the importer's domestic industry. While more detailed rules governing the use of such measures were negotiated in the Tokyo Round, the use of such measures as a protectionist ploy proliferated in recent years - causing the Uruguay Round to re-examine the issue. The new agreement provides for greater clarity and more-detailed rule as to the determination that a product has been "dumped". Moreover, an importer is now required to establish a clear causal relationship between dumped imports and injury to the domestic industry.

(e) Quantifying the outcome of the Round

67. What is the expected magnitude of the benefits emanating from the Uruguay Round agreement? A number of studies have already attempted to address this question. One such study, carried out under the auspices of WTO, estimated benefits of 94 billion dollars a year, in 1992 United States dollars. When induced investment is incorporated into the picture, the gains rise to 214 billion dollars a year, of which almost half is estimated to accrue to developing countries. A second study, this one carried out under the sponsorship of the World Bank, found total income gains of 171 billion dollars, with roughly a third to developing countries. Yet a third investigation focused primarily on manufactures and incorporated the growth and structural change anticipated over the period up to the full implementation of the Round in 2005. This methodology tends to increase estimated gains since the global economy

becomes larger over time and, without the Round, would be more distorted in 2005 than it was in 1992. In this model, therefore, income gains are estimated at 258 billion dollars per year, roughly a third of which would accrue to developing economies. Another significant consideration affecting the level and distribution of benefits from liberalization is the performance of labour markets. 35/ A fourth study incorporated this factor and came up with an estimated 235 billion dollars per year in gains, with 56 billion dollars going to developing countries. 36/

68. Of course, none of these estimates can be taken on faith. Rather, they are an indication of possible orders of magnitude. The same may be said of an analysis of the real income and real wage effects of the Round, disaggregated by region. In each instance, the outcome depends on efficiency gains from each country's liberalization, terms of trade effects, as well as the implications of abolishing the Multifibre Arrangement. The largest gains, according to this study, accrue to East Asian WTO members - such as Indonesia, Malaysia, the Republic of Korea and Thailand - which have committed themselves to fairly rigorous liberalization of both agriculture and manufactures. Following this train of thought, the Middle East and North Africa, as well as the economies in transition, are estimated to reap small GDP gains because they undertook relatively few commitments to liberalize under the Round. In fact, many of these economies are not yet WTO members. Meanwhile, there is an estimated loss to sub-Saharan Africa, reflecting the lack of liberalization, small increases in world prices for some foodstuffs, and higher prices for imported textiles and apparel. 37/, 38/

3. Trade blocs

69. It no longer makes sense to think in terms of the desirability of trade bloc proliferation. Regional trading arrangements are a clearly established feature on the current trade horizon. Not only do all major industrialized countries belong to at least one such grouping, but - in a trend that characterizes the first half of this decade - a large number of developing economies have become active participants in their formation and/or enlargement as well (see table 5). 39/ Moreover, between 1990 and 1994, intraregional trade in North America, Asia and Latin America expanded faster than interregional trade (though the opposite trend was observed in Western Europe and Central/Eastern Europe and the former USSR). In 1995, according to available data, there was once again a faster increase in intraregional trade for Asia and Latin America. 40/

Table 5. Six major and recent trading blocs

Name	Entry into force	Members
1. North American Free Trade Agreement (NAFTA)	1989	Canada, Mexico, United States of America
2. Asia-Pacific Economic Cooperation Forum (APEC)	1989	Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Republic of Korea, Singapore, Taiwan Province of China, Thailand, United States of America
3. Southern Cone Common Market (MERCOSUR)	1991	Argentina, Brazil, Paraguay, Uruguay
4. ASEAN Free Trade Area (AFTA)	1991	Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam
5. Southern African Development Committee (SADC)	1992	Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, United Republic of Tanzania, Zimbabwe, Zambia
6. West African Economic and Monetary Union (UEMOA)	1994	Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, Togo

Source: Based on information collected by the Department for Economic and Social Information and Policy Analysis.

70. Deepening and widening of trading arrangements, as in Europe, was numerous and rapid during the first half of the 1990s. However, the big question that of course arises is what the ultimate welfare effects of all this bloc activity will be. 41/ The classical dichotomy between trade creation and trade diversion - as expounded by Viner and Meade - has been the take-off point for any discussion of the subject for many decades, making it clearly recognized that regional trade blocs may be welfare-reducing - though the actual welfare implication of a particular pattern of regionalization, it has been assumed, had to be determined on a case-by-case basis.

71. At the beginning of the 1990s - along with renewed interest in bloc formation - came renewed warnings of the possible negative welfare implications of such schemes. 42/ Since then, attempting to allay such fears, models have been devised showing that blocs may be welfare-improving, under the right

conditions. 43/ The most recent academic discussions, meanwhile, have centred around two concepts. First, the notion of "continental", or "natural" trading blocs has been modelled, thereby incorporating the effects of transport costs on trade flows. Secondly, the concept of "open regionalism" has been articulated. This latter term, which is dismissed by some as an oxymoron, argues that some regional bloc structures are better able than others to minimize trade diversion.

72. Clearly, the issue of whether regional trading arrangements are "stepping stones" or "stumbling blocks" to global free trade is not yet resolved. 44/ Suffice it to say that, while the chief pillar of WTO as regards trade in goods, services and intellectual property is non-discrimination, the cornerstone of regional trading arrangements is - by definition - discrimination. A key issue, therefore, is whether the stipulations of any proposed arrangement will conform to WTO provisions. Article XXIV of the 1994 GATT/WTO Agreement, adopted as part of the Uruguay Round accord, spells out the guiding principles for such schemes - namely, the blocs are to facilitate trade between members, while not raising barriers vis-à-vis non-members. Whether this condition is actually met is easier to assess in theory than in practice, however, and it remains to the international community therefore to ensure that such bloc-formation as occurs is welfare-enhancing for the world at large. One important recent development in this vein was the decision taken at the WTO General Council meeting, on 15 December 1995, to create a committee to examine all new regional agreements. The terms of reference of the Committee - agreed to on 6 February 1996 - are far-reaching. It will examine all regional trading agreements of whose creation WTO is notified. It will develop procedures to improve the examination process, receive reports on existing agreements and consider the systemic implications of regional arrangements and initiatives on the multilateral trading system at large. 45/

73. New items on the agenda include trade and environment and trade and labour standards issues. Several developed countries have proposed putting these two items on the future agenda of WTO, though a number of developing countries fear that these issues could become a pretext for protectionist measures by industrialized countries.

B. Debt, capital flows and aid

74. A reference to the period 1973-1981 - which witnessed massive capital flows to many developing economies, largely in the form of private bank loans to the public sector - is generally obligatory in any analysis of financial flows to low- and middle-income developing countries. Customarily, mention is then made of the fact that such lending essentially "dried up" for most - but not all - developing countries in the debt crisis period, 1982-1989.

75. Events have, in many respects, come full circle in the first half of the 1990s. Thus, in recent years, a number of developing countries in various regions of the world have, once again, become recipients of substantial inflows of foreign capital. However, two factors distinguish the story at this point: first, the disparity in the trends between private capital versus other resource

flows and, secondly, the high degree of concentration of private capital inflows.

Table 6. Selected capital flows to developing countries

(Billions of 1993 dollars)

	1970s a/	1980s a/	1991	1992	1993	1994	1995 b/
Net foreign direct investment	3.0	13.0	34.5	44.9	64.0	80.1	90.3
Portfolio investment	4.2	3.5	17.5	24.3	86.6		
Net commercial bank lending	9.8	11.8	18.9	14.5	5.5		
Grants plus official debt flows	9.9	34.4	59.3	47.3	52.3		
Total	23.1	62.5	113.1	131.0	208.3	207.4	231.3

Source: For 1970s to 1993, see Finance and Development (December 1995), p. 7; for 1994 and 1995, see World Debt Tables, 1996, vol. 1.

a/ Figures represent the annual averages for 1971-1980 and 1981-1990, respectively.

b/ Preliminary.

76. Private capital flows are playing a growing role in economic development. For example, foreign direct investment to the developing world quadrupled from an annual average of 12.6 billion dollars in 1980-1985 to more than 50 billion dollars in 1992-1993. It rose further to 70 billion dollars in 1994. Developing countries received roughly one third of total world foreign direct investment during 1992-1994, up from one fifth in the first half of the 1980s. Moreover, the share of foreign direct investment in the gross capital formation of developing countries more than doubled between 1986 and 1992, exceeding 6 per cent in 1993. 46/

77. At the same time that direct investment is swelling, some other forms of capital flows are diminishing in relative importance. For example, concessional assistance has been continuously declining as a share of capital inflows since the 1960s, when it accounted for some two thirds of total capital inflows. As recently as the 1980s, aid constituted more than 50 per cent of total capital inflows. In 1993, the comparable figure was one quarter. Moreover, commercial bank lending - a major source of funds in the 1970s - has practically dried up since the debt crisis of the 1980s.

78. Portfolio investment has also shown impressive growth during this period - in fact, increasing to a substantially greater extent than has direct investment. The point generally made about portfolio investment, however, is that it is both volatile and risky - an assessment borne out by outflows from

Mexico in December 1994. Meanwhile, foreign direct investment is viewed as having the added benefit of bringing with it technology, management know-how and access to export markets - all variables in high demand in developing countries. 47/

79. As advantageous as foreign direct investment is, it remains highly concentrated. Eight countries, comprising 30 per cent of developing country GDP, garnered two thirds of overall flows in 1990-1993. 48/ In 1994, 11 countries accounted for roughly three quarters of total foreign direct investment flows to the developing world. 49/ The bulk of these countries are in East Asia and Latin America. In 1995, foreign direct investment to China alone jumped 12 per cent, making that country the largest recipient of foreign direct investment, accounting for about one third of such flows. 50/

80. In fact, private capital flows in general - not just foreign direct investment - are highly concentrated. In 1993, for instance, 12 countries accounted for 77 per cent of private flows. Meanwhile, only 10 countries issued nearly 90 per cent of all emerging market bonds in 1993: Mexico, Brazil, Argentina, Hungary, Republic of Korea, Greece, Turkey, China, Venezuela and Thailand (cited in descending order of the dollar value of bonds issued). 51/

81. While a selected - albeit widening - number of developing countries are attracting the lion's share of ever-growing private capital flows, a notable feature of the 1990s is that the stream of official development assistance (ODA) has meanwhile stagnated, and actually declined in real terms. Thus, over the period 1990-1994, receipts of ODA by developing countries remained more or less level - apart from a small spike in 1991 - at a plateau established in the mid-1980s. 52/ In 1994, ODA from all Development Assistance Committee members to developing countries and multilateral organizations amounted to 0.30 per cent of their combined GNPs, compared to an average of 0.34 per cent in the early 1980s. 53/ Basically stagnant, ODA disbursements increased only from $51.3 billion in 1990 to $54.5 billion in 1994, though they were slightly reallocated over this period, so that a somewhat greater proportion of ODA was directed towards Africa, south of the Sahara, and towards selected countries in North and Central America and Far East Asia. Thus, allocations to Haiti and Mexico increased considerably, as did ODA to China, Cambodia, Mongolia and Viet Nam. 54/

82. As noted above, the debt crisis of the 1980s left many casualties in its wake. However, a notable feature of the first half of this decade has been the increasing differentiation that has taken place in the situations of various debtor nations. On the one hand, a number of middle-income developing countries, especially in Latin America, appear to have gotten a handle on their external debt situations by virtue of having regained access to international capital markets. On the other hand, many low-income countries - and a number of lower middle-income countries, as well - continue to face considerable debt-servicing difficulties.

Table 7. Debt indicators for capital-importing developing countries, 1990, 1994 and 1995

(Percentages)

	1990	1994	1995
External debt to GNP ratio	39.1	37.0	31.6
Latin America	44.9	37.1	39.6
Africa	70.4	76.4	65.0
Sub-Saharan Africa	98.9	135.8	120.9
Asia	27.2	28.5	26.8
Least developed countries	82.6	98.5	89.8
External debt to exports ratio	138.9	122.8	98.8
Sub-Saharan Africa	327.1	384.5	366.3
Least developed countries	368.0	435.3	410.8
Debt service to exports ratio	15.7	12.9	12.9
Sub-Saharan Africa	17.7	16.7	19.3
Least developed countries	14.1	11.3	16.8

Source: World Economic and Social Survey 1996 ..., annex table A.37.

83. A strategy designed to return debt-ridden economies to sustainable debt-servicing situations has thus far focused on the debt problems associated with commercial bank debt, as well as debt owed to governmental creditors. However, at the joint World Bank/International Monetary Fund (IMF) Development Committee in October 1995, the Committee decided to address the problems associated with debt owed to multilateral institutions at its spring 1996 meeting. 55/ A preliminary assessment identified eight countries as carrying "unsustainable debt" - where the threshold for "sustainability" was set at 20 to 25 per cent for the ratio of debt-service to exports and 200 to 250 per cent for the ratio of debt to exports: Burundi, Guinea-Bissau, Mozambique, Nicaragua, Sao Tome and Principe, Sudan, Zaire and Zambia. Other countries deemed to be under huge stress were Bolivia, Cameroon, the Congo, Côte d'Ivoire, Ethiopia, Guyana, Madagascar, Myanmar, the Niger, Rwanda, the United Republic of Tanzania and Uganda. 56/ A mutually acceptable plan to assist these 20 economies has yet to be elaborated. The issue will next come before the Development Committee at its autumn 1996 meeting. 57/ Critics, however, have already focused on the requirement of a track record of "sustained reform" as a prerequisite for eligibility, noting that only Bolivia and Uganda would meet this criterion at this point.

84. While a coherent World Bank/IMF plan is not yet in place, in March 1995, donors from more than 30 countries did agree to some 22 billion dollars of funding for the International Development Association (IDA), the concessional lending arm of the World Bank. The agreement calls for countries to provide some 11 billion dollars over three years, commencing in July 1996, with the remainder coming from repayments of IDA credits, past contributions and funds from the Bank itself. IDA allocations potentially benefit some 78 poorer countries, with a total population of more than three billion. Nevertheless, this level of funding represents a substantial reduction of the amount donor countries provided to IDA in previous replenishments - when some 18 billion dollars were pledged, with the remaining three billion dollars coming from reflows and Bank profits.

85. Whatever minor optimistic notes can be sounded, the fact remains that there is a sub-set of heavily indebted poor countries - notably, in sub-Saharan Africa - for which the debt burden story has not changed at all in the past few years. In point of fact, from the perspective of the three debt "indicators" cited in table 7, their situation has actually worsened since 1990.

VI. DEVELOPMENT OF THE LEAST DEVELOPED COUNTRIES AND SPECIAL MEASURES ON THEIR BEHALF

A. Economic performance

86. For a decade and a half, the economic performance of the least developed countries, as a group, has been disappointing and continues to be a matter of deep concern for the international community. 58/ Despite the fact that the economies of the least developed countries improved in 1995, their economies actually worsened when looked at over the five-year period 1991-1995 as a whole - with GDP per capita declining by about 0.9 per cent, compared to stagnation in the 1980s - though there are, of course, wide variations across countries. Only 17 of the 48 least developed countries achieved robust growth rates and managed to improve their living standards. Another 16 faced weak economic growth and were unable to avoid a deterioration in per capita income. The remaining 15 performed poorly - mostly owing to political unrest, civil strife and war.

87. There might be several explanations for these diverging trends among least developed countries. The best performers - all but eight of which are located in Asia - benefited from substantial capital inflows (workers' remittances, ODA, foreign direct investment and loans), as well as market opportunities. 59/ They managed to expand their economic productive base, moving away from primary commodities into manufactures. This protected them somewhat from depressed commodity prices. 60/ Moreover, they have also successfully increased export earnings, owing to the strong economic growth and increased intra-trade of the Asian region.

88. Meanwhile, stagnant least developed countries faced many constraints that prevented them from raising their living standards. Output grew, but was outpaced by rapid population growth which led to declining per capita income. The weak economic growth of these economies was mainly attributable to supply-

side constraints - such as an overdependence on non- or semi-processed commodities, rudimentary technology, a shortage of skilled manpower and an inadequate physical infrastructure. Natural disasters such as drought caused real GDP to decline in many countries, further exacerbating the problems of these structurally weak economies. Not surprisingly, these economies - all but two of which are in Africa - faced terms-of-trade losses. 61/

89. Civil war and acute political instability had devastating effects on a large number of least developed countries through 1994 and only five of them managed to end their civil wars and/or civil strife. As a result, a great deal of physical infrastructure was destroyed, agricultural production collapsed 62/ and industrial output declined. In many instances, a rural exodus took place, with many people displaced, some of them becoming refugees in neighbouring countries. Scarce resources were diverted from economic development to financing war efforts. As a result, average output growth in these countries fell, as did per capita income.

B. Policy responses

90. Caught between slow - or even negative - per capita income growth and macroeconomic imbalances, most least developed countries carried out a wide range of policy reforms (as of April 1996, 38 had implemented adjustment reforms). While there were significant intercountry variations in the design and impact of reforms, policy changes - together with key instruments - were broadly similar in their orientation, consisting of demand management (restrictive fiscal and monetary policies) to eliminate both internal and external imbalances and reduce inflation; expenditure and production-switching (exchange rate and wage policies) to promote exports and import-substitution; and market-oriented, supply-side reforms (such as liberalization, deregulation and privatization) to enhance the efficiency of resource allocation.

91. As fiscal and external imbalances persisted, most least developed countries undertook major reassessments of their fiscal and development programmes, with a significant shift towards budgetary restraint. Recruitment of civil servants was frozen, reducing wages and eliminating fringe benefits. Civil service reforms stressed downsizing. Consumer subsidies were removed and social expenditures on education and health, for example, were drastically cut - mostly reflected in a decline in capital spending on new schools and hospitals. Capital spending was rationalized by concentrating and redirecting investment to productive activities.

92. Privatization has been a key element in the fiscal adjustment package. To help release pressure on the government budget and reduce borrowing requirements, public enterprise reforms were launched in the 1990s in most least developed countries. Privatization included not only divestiture or the sale of state assets, but also transferring the management of state activities through contracts and leases to private parties, contracting out or granting franchises in undertaking activities that were previously performed by the State, and joint ventures between public and private sectors. 63/

93. Prior to reform, low or negative interest rates discouraged saving, increased capital flight and provided room for easy credit expansion. Consequently, most least developed countries implemented policies to restrict credit and raise real interest rates. In many countries, administrative controls were removed and banks were allowed to set interest rates freely. This was accompanied, in some countries, by financial market liberalization, allowing non-banks - such as large corporations and credit institutions outside the banking system - to directly finance the fiscal deficit.

94. Some least developed countries (including Burundi, Madagascar, Mozambique, Sierra Leone, Uganda and the United Republic of Tanzania) resorted to devaluation to stimulate production, to increase their competitiveness, attract foreign capital, reduce excessive demand for foreign exchange and, in some cases, eliminate illegal currency trafficking and smuggling. Even those countries in the CFA zone that had enjoyed fixed exchange rates for many decades devalued their currencies by 50 per cent against the French franc in January 1994. Nine of these are least developed countries. 64/

95. External trade policy shifts included the removal of quotas, replacing them with tariffs, the elimination of export taxes, the rationalization of tariff schedules, and the conversion of tariffs to an *ad valorem* basis. At the same time, deregulation measures were implemented and, accordingly, price controls were lifted for most commodities and the state monopoly on domestic trade was dismantled in some countries (Benin, Burkina Faso and the Gambia).

C. Assessment of policy changes

96. While most least developed countries have been implementing economic reforms since the mid-1980s, the external environment has not always been supportive. Thus, Africa's terms of trade were depressed during the 1980s and in the first half of the decade (its terms of trade declined by 3.2 per cent between 1991 and 1995). Even south-east Asia's terms of trade - which had benefited Asian least developed countries during the 1980s (rising by 2.6 per cent) - declined by 0.8 per cent during 1991-1995. Moreover, between 1992 and 1994, drought affected 10 least developed countries, while civil war continued in others until 1992. These various unfavourable external factors (declining terms of trade, drought, civil war and strife) affected the performance of the least developed countries during the first half of the 1990s.

97. Stabilization programmes during the period 1991-1995 have had a negligible impact on per capita income growth. However, many least developed countries succeeded in restoring macroeconomic balances. Thus, based on a sample of 31 countries for which budget as well as balance-of-payments data were available as of 1993, the last available year, 16 reduced their fiscal deficit (excluding grants) ratios to GDP and in some countries - Benin, the Comoros and Ethiopia - the cut was significant. The improvement in the balance of payments was equally impressive. Fifteen of the 31 countries substantially reduced their current account deficit to GDP ratio. However, the improvements in the fiscal and current account ratios reflect, respectively, the compression of public expenditures and imports rather than the expansion of public revenues and exports. 65/ Twenty of the 31 failed to reverse the decline in per capita GDP,

the improvement was marginal in eight others, while the remaining three - Lesotho, Myanmar and Guinea-Bissau - managed to increase per capita income above 2 per cent.

98. Economic reforms had a limited effect on domestic resource mobilization. All 31 countries faced negative resource balances - which in some countries reached as much as 50 per cent of GDP in 1993. These resource gaps were financed by external capital inflows. The inability of least developed countries to mobilize domestic resources, as well as their heavy reliance on external resources, have raised concerns about sustainability. Thus, remittance flows depend on the migration policies and attitudes of host countries. External assistance is contingent on donors' budgetary constraints, additional demands on their resources and general perceptions of the limited absorptive capacity of some least developed countries. 66/

99. Privatization has progressed slowly in the least developed countries since 1989 owing in part to the underdevelopment or lack of capital markets, making it difficult for potential national investors to raise sufficient capital. Moreover, the administrative and financial resources needed to prepare privatization proposals constitute another binding constraint. Many Governments lack the expertise or the administrative capacity to effectively conduct a privatization programme. Furthermore, because privatization has usually involved labour retrenchment, trade unions in many countries have displayed strong opposition to the implementation of such programmes. Last, but not least, foreign buyers have shown limited interest in public enterprises.

100. Although there were significant shifts of production away from agriculture in some least developed countries, agriculture continues to be the backbone of the bulk of these economies, accounting for 46 per cent of their combined GDP and 69 per cent of their total labour force in 1994 (in contrast to 13 per cent and 57 per cent, respectively, for all developing countries). Agriculture remains the main source of export earnings, income and budget revenues. Consequently, manufactured goods constituted only 21 per cent of the total exports of the least developed countries in 1992, compared to 59 per cent for all developing countries. Some least developed countries (Bangladesh, the Lao People's Democratic Republic and Nepal), however, have achieved a fair amount of success in exporting labour-intensive manufactures - such as garments, footwear, toys and carpets - thus reducing their dependence on primary commodities. Nevertheless, their export base still remains narrow, with a very limited number of manufactured items dominating their total exports (in some least developed countries, three to five manufactured goods account for more than 70 per cent of total exports).

101. To help redress these policy-induced weaknesses, many least developed countries resorted to liberalization of the industrial sector. Measures taken included the following: de-licensing in order to remove barriers to entry and promote the growth of firms; reduction of trade barriers to encourage import competition; and establishment of policies and institutions geared to the development of export industries. 67/ While several countries - Bhutan, Equatorial Guinea and Malawi - have seen an increase in their manufacturing value-added, the least developed countries, as a whole, performed very poorly. The contribution of the combined manufacturing sector to aggregate GDP has been

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declining (9 per cent in 1994 as compared to 11 per cent in 1980) as have average growth rates (-0.4 per cent between 1990 and 1994 against 2 per cent during 1980-1990). Thus, certain least developed countries have been deindustrializing, while others have failed to strengthen or maintain manufacturing growth. 68/

D. External resource flows, debt and trade

102. The least developed countries are becoming increasingly dependent on official development assistance flows. In 1994, grants represented 78.6 per cent of total financial flows to the least developed countries (at constant 1980 prices and exchange rates) compared to 59.5 per cent in 1985 and 65.2 per cent in 1990. Meanwhile, the share of grants in total flows to developing countries, as a whole, declined - from 42.8 per cent in 1985 to 28.6 per cent in 1994. While per capita ODA increased between 1981-1987 and 1988-1994, the least developed countries' share of total ODA flows did not really increase between the same two periods. The increasing requirements of the least developed countries for concessional assistance contrast with the static aid efforts of donors. Longer-term trends suggest an apparent marginalization of the least developed countries as regards the provision of aid.

103. With the exceptions of Angola and Liberia, least developed countries have not benefited from the boom in foreign direct investment to developing countries in recent years. Against a background in which foreign direct investment to developing countries was increasing dramatically, the least developed countries' share of total foreign direct investment to developing countries declined from 1.7 per cent, on average, during the period 1983-1988, to 1 per cent in 1994. 69/ At the same time, a substantial profit remittances outflow, estimated at about $0.7 billion annually, cancelled out the inflow of foreign direct investment during the period 1989-1994.

104. The stock of outstanding external debt of the least developed countries has grown from $82.5 billion in 1986 to $117.3 billion in 1995. Ninety per cent of that debt is long term, and almost all of it is official. The external debt-service ratio is high, averaging 73 per cent of the combined GDP of the least developed countries in 1993. More than half of the least developed countries are considered "severely indebted". They are hence caught in a vicious circle: their high level of external indebtedness means that their credit ratings are generally poor, which, in turn, implies that they are not eligible for commercial loans. Moreover, their export base, being small, cannot generally provide enough foreign exchange to finance their external needs. Thus, to finance the imports necessary to increase productive capacity, most least developed countries have become heavily and increasingly dependent on official foreign aid.

105. A number of debt-relief schemes for the least developed countries and other low-income countries have been set up in recent years and most least developed countries have benefited from these plans. 70/ Debt forgiveness was the most important debt-relief measure undertaken, particularly for the most debt-distressed least developed countries. Some donor countries cancelled ODA

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debt, benefiting several least developed countries - including Afghanistan, Bangladesh, the Lao People's Democratic Republic, Myanmar and Nepal. In some instances, donors rescheduled official bilateral debt. Although the share of obligations to the Paris Club in least developed countries' total debt is relatively low, flows from Paris Club donors still account for a significant share of the debt-service payments of the least developed countries (some 30 per cent in 1993, including ODA loans). The new "Naples terms" are thus a welcome step forward. 71/ As of 1994, 23 out of 48 least developed countries had benefited from buy-back operations or discount debt exchanges that helped them to reduce their commercial bank debts.

VII. ROLE OF THE UNITED NATIONS SYSTEM

106. A number of major international conferences have been successfully concluded since the adoption of the Declaration and the Strategy. The United Nations Conference on Environment and Development, the International Conference on Population and Development, the World Summit for Social Development, the Fourth World Conference on Women and the United Nations Conference on Human Settlements (Habitat II) have further demonstrated the vast scope, complexity and multisectoral character of development issues, as well as the involvement of multiple actors. The outcome of these conferences reflects and builds upon many of the concepts and issues raised in the Strategy and emphasizes the importance of the role of the United Nations system in achieving development goals through greater cooperation and collaboration.

107. The United Nations system, both through these global conferences and other activities, has been a major actor in promoting a holistic approach to development by linking social, economic and environmental considerations as the foundation for policy and action. As a result, the understanding of development has deepened and evolved, with numerous and profound consequences for the formulation of policies at the national and international levels. The specialized agencies, funds and programmes are assisting countries to promote a people-centred, environmentally sound and sustainable development, focusing on poverty alleviation, employment and sustainable livelihoods, the advancement of women, protection and regeneration of the environment, and sound governance, to ensure an enabling environment conducive to economic and social development. Within this spectrum of activities, attention has been given to many of the issues that received particular attention in the Declaration and the Strategy.

108. In both the Declaration and the Strategy, external debt and international trade figure prominently. Work on external debt continues to be important in the United Nations system, including the Bretton Woods institutions. For example, the World Bank and the International Monetary Fund are continuing their joint efforts to reduce the external debt, including multilateral debt, of the heavily indebted poor countries to an acceptable level. The United Nations Development Programme (UNDP) has been studying the external debt problem, analysing the impact of existing debt-relief measures and examining what further actions are required. At the country level, UNDP, as well as other donors, have provided Governments with the Debt Management and Financial Analysis System of the United Nations Conference on Trade and Development (UNCTAD) to strengthen their capacity to record, monitor and analyse their external debt. The System

has become a key instrument in the management of the external debt of many countries. Some countries have requested UNDP support to prepare debt-reduction strategies, which have been used by those countries in negotiations at the Paris Club. The UNCTAD secretariat actively participates in Paris Club meetings, where it presents an analysis of the economic circumstances and future prospects of the debtor country. It also provides technical support to debtor countries seeking to reschedule their debt. A pilot operation for organizing debt swaps for social development is also actively pursued with other United Nations agencies and bilateral donors.

109. In the previous review and appraisal, the establishment of WTO and its relationship with the United Nations was noted. Following the exchange of letters on 29 September 1995 between the Secretary-General of the United Nations and the Director-General of WTO, UNCTAD and WTO have agreed, in line with their respective mandates, to enhance cooperation, in particular the technical assistance activities of the International Trade Centre UNCTAD/WTO. Regular meetings at the executive level and among trade policy and trade promotion experts have strengthened working relationships among the three organizations. This new approach to collaboration is aimed at assisting developing countries, and especially the least developed among them, to integrate themselves into the multilateral trading system and to draw the maximum benefit from trade and investment opportunities. UNCTAD activities related to the follow-up to the Uruguay Round include identification of trading opportunities arising in the sectors of agriculture, textiles and clothing, and other industrial products; determining ways to translate the Round's special provisions for least developed countries into concrete action; enhancing the understanding of the implications of the new rules deriving from the agreements and their follow-up; and identifying ways in which developing countries and countries with economies in transition could be assisted to make use of special clauses providing for differential and more favourable treatment. UNDP has also supported various programmes and projects to enhance the competitiveness of national economies. Through policy development, training, and institutional and organizational development at the country level, UNDP projects have increased national capacities in trade-related areas, strengthened the institutional, legal and regulatory environment and improved trade information systems.

110. The Strategy recognizes the crucial importance of commodity diversification to the growth and stability of the exports of developing countries, particularly in Africa. In this regard, the Food and Agriculture Organization of the United Nations (FAO) prepared, at the request of the Secretary-General, a proposal for a diversification fund for African commodities. The General Assembly called for donor support to this proposal, but so far the response has been limited.

111. Among the various policies and measures necessary for the reactivation of development, the Strategy called for building up the scientific and technological capability of developing countries. In this regard, the United Nations Industrial Development Organization (UNIDO) convened, in 1995, a global forum on industry, entitled "Perspectives for 2000 and Beyond", which highlighted technology as a core requirement for achieving competitiveness. In addition to strengthening the capacities of developing countries in the area of scientific and technological research and development, UNIDO has more recently

focused on the commercialization and application of new technologies in the industrial sector.

112. Eradication of poverty is a primary objective of the United Nations system and its activities have been geared towards achieving this goal, especially in the light of the launching of the International Year for the Eradication of Poverty, as well as the First United Nations Decade for the Eradication of Poverty. With regard to hunger, it remains unclear what the actions called for in the Final Act of the Uruguay Round mean for the poorest households in low-income food-deficit and least developed countries but the Final Act includes a commitment to ensure the availability of sufficient levels of food aid during the implementation of the reform programmes in developing countries. In this regard, the World Food Programme (WFP) is working with IMF, the World Bank and FAO in an informal group to examine the roles that those institutions might play individually and jointly should the world food situation worsen markedly.

113. Concerning population, the United Nations Population Fund (UNFPA) has developed a strategy to develop an international public, government and parliamentary constituency in support of population programming and assistance that will provide universal access to reproductive health services and bring about full equality for women. It also aims to convince both developing and developed countries that population should be a mandatory element of national budgets. The approach of UNFPA to resource allocation pays special attention to low-income countries, least developed countries and countries in Africa, as recommended in both the Programme of Action and the Strategy.

114. Throughout the Strategy, the need for implementation of policies and measures at the regional and subregional level is stressed. The analytical studies and reports, statistical data and social indicators, and workshops and training programmes of the regional commissions have contributed to improved policy formulation by member countries in their efforts to alleviate poverty through accelerated economic growth, to improve asset and income distribution and to enhance access of the poor to credit and social services. Their reviews have focused on macroeconomic performance and policies, recent changes in development strategies, the state of international trade and investment flows, and the prospects of regional economies. Some commissions have undertaken in-depth analyses of reforms and liberalization of the financial sector and the role of the private sector in development in order to shed light on the policy improvements and safeguard measures needed in those areas. The analyses underscore the need to strengthen regional coordination and harmonization in trade, investment and monetary and fiscal policies in order to create a favourable environment for enhanced intraregional trade and investment flows.

115. In the previous review and appraisal, reference was made to the rapid escalation of internal conflicts and civil strife and to the fact that the magnitude of the resources required to deal with humanitarian and emergency assistance posed an enormous drain on the United Nations system. As a result, increasingly large proportions of resources within the United Nations system had to be diverted to address urgent needs, leaving less available to address the long-standing development objectives espoused in the Strategy and the Declaration.

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116. This situation has not improved. The need for humanitarian assistance has increased and resources have been diverted from development to meet the demand for emergency and short-term assistance. In the light of this trend, agencies, funds and programmes have taken measures to mitigate the impact of the retrenchment in resources. To reduce the cost of programme delivery, for example, UNDP has changed the mix of national and international expertise. Decentralizing the decision process for development (for example, shortening the time for processing projects) is also contributing to the efficiency of resource allocation. UNIDO, despite its shortage of internal manpower and funding resources, has substantially increased project implementation in its areas of competence. The United Nations Environment Programme (UNEP) is increasingly entering cooperative arrangements at the country level with other funding agencies or bilateral donors.

117. The Strategy emphasized that the work of the United Nations system should be given greater coherence by closer inter-agency cooperation and coordination and by organizational measures that strengthen the contribution of the system to development. As a follow-up to the sequence of global conferences, three ad hoc inter-agency task forces were established by the Administrative Committee on Coordination (ACC) in 1995, around the following interrelated themes: (a) the enabling environment for social and economic development; (b) employment and sustainable livelihoods; and (c) basic social services for all. The task forces are expected to produce concrete outputs, such as guidelines, which will help resident coordinators in developing among the specialized agencies an integrated approach to economic and social development at the country level. The task forces are goal-oriented and time-bound and are contributing to improved inter-agency teamwork at both the headquarters and the country levels. ACC has stressed that close links had to be established by the task forces with the Inter-agency Committee on Women for the follow-up to the Beijing Conference, and with the Steering Committee on the Special Initiative on Africa.

VIII. CONCLUSIONS

118. Since the adoption of the Declaration and the Strategy, as countries deepen their global economic links, there appears to have been a growing convergence of opinion as to what constitutes an "appropriate" economic development strategy. For example, in pursuing reform, a distinction has to be drawn between the attainment of macroeconomic stability, which is a requirement even in the short run, and achieving structural reform, which is a long-run necessity. A second lesson appears to be that "getting prices right" may be a necessary condition for development success, but it is by no means sufficient. Then, too, it appears that the sequencing of reform is an important consideration. Perhaps most importantly, it has increasingly become evident that - to be successful in the longer run - policies need to focus not just on growth, but on improving the lot of the population at large, as well.

119. No country is a "blank canvas" waiting to be converted into a market economy. In attempting to implement market reforms, complications inevitably emerge, sometimes exceedingly unexpected and destructive ones. Secondly, for a number of countries, an external constraint - such as poor export prices or a heavy debt burden - has become a semi-permanent situation. Short-term

palliatives to such long-term problems are bound to fail. Thirdly, a certain degree of economic intervention characterized most, if not all, successful developers.

120. In reality, very little is conclusively known about the determinants of economic growth. Recently, for example, there has been considerable debate focusing on the so-called "East Asian miracle" and questioning whether the high growth rates observed in this region should be attributed mainly to productivity gains or to factor accumulation. While there is no categorical answer to this question, one thing that is known is that a significant and sustained rate of technological progress is the only possible way, in the long run, for an economy to achieve a sustained rate of growth of output per person. The question, therefore, immediately arises of what the "correct" degree of policy intervention should be to encourage the requisite productivity growth. Here there are numerous different recommendations, ranging from the view that the Government should only concentrate on providing so-called "pure public goods" and services and on "getting the basics right" to the conviction that, since there are many market imperfections, especially in poorer countries, the Government should play a central role in helping to acquire technology, allocating funds for key projects and guiding the development of the economy. 72/ The choice among these policies - or, any combination thereof - is complicated by the fact that there is no proved, tested relationship between selective policy interventions and effective development strategies. As has been noted, successful East Asian economies have exhibited an assortment of policies and institutions - ranging, for example, from highly interventionist (Japan and the Republic of Korea) to non-interventionist (Hong Kong and Thailand) and from emphasis on large conglomerates (Republic of Korea) to an accent on small, entrepreneurial firms (Taiwan Province of China). 73/

121. The proposition has been advanced, however, that a number of initial conditions prevalent in the East Asian context - relatively equitable distribution of land and income, high school enrolment and life expectancy and low fertility rates - may "explain" the phenomenal growth rates observed in East Asia after 1960. 74/ While initial conditions do, indeed, appear to be important, it is not clear what the normative implications of these findings are. Thus, knowing that "initial conditions count" says very little about the specific policies that Governments should pursue - beyond getting the basics "right" - as part of a coherent development strategy. Even examining the set of effective "integrators", no simple recipe or formula for success has surfaced so far.

122. Since the adoption of the Declaration and the Strategy, each of the global conferences convened under United Nations auspices has resulted in international agreement on strategies for its area of concern and has identified a wide range of supportive measures and actions. Inevitably, because of the intimate interrelationships between development issues, there is considerable overlap in the content of these agreements. Collectively, however, they point to a growing international convergence of views on the necessary ingredients for development. They therefore refine and advance the Declaration and the Strategy. Moreover, these views on development are currently being distilled by the working group of the General Assembly on an agenda for development. It seems likely that the action that will be taken by the General Assembly as a result of the work of

this group will call for follow-up by the Assembly. The Assembly may wish to combine future review and appraisal of the Declaration and the Strategy with this follow-up to the work on the agenda for development.

123. In addition to these reviews of performance against previously established goals and programmes, the Assembly may also wish to undertake forward-looking reviews of selected new and emerging trends and issues that might need to be taken into account in national and international development strategies. In the past, the Assembly has undertaken examinations of long-term trends in social and economic development (see, for example, document A/50/429), but the Assembly has not provided for consideration of such long-term issues in its future programme of work.

Notes

1/ General Assembly resolution S-18/3 of 1 May 1990.

2/ General Assembly resolution 45/199 of 21 December 1990.

3/ General Assembly resolution 49/92 of 19 December 1994.

4/ See, for example, Global Economic Prospects and the Developing Countries 1996 (Washington, D.C., World Bank, 8 March 1996).

5/ For a discussion of these points, see Dani Rodrik, "Understanding economic policy reform", Journal of Economic Literature, vol. 34, No. 1, pp. 9-41; and John Williamson, The Political Economy of Policy Reform (Washington, D.C., Institute for International Economics, 1994).

6/ See Rodrik, loc. cit.; and Michael Sarel, "Growth in East Asia: What we can and what we cannot infer from it", IMF Working Paper, No. WP/95/98 (September 1995).

7/ Empirical evidence shows that a relatively small set of favourable initial conditions can "explain" a large percentage of the phenomenal growth rates in East Asia after 1960; see Sarel loc. cit.

8/ See World Economic and Social Survey 1996 (United Nations publication, Sales No. E.96.II.C.1), chap. I.

9/ For a further discussion of these issues, see World Economic and Social Survey 1996 ..., chap. II.

10/ See World Economic and Social Survey 1996 ..., table 1.3; figures for 1995 are preliminary.

11/ See World Trade Organization (WTO), press release (PRESS/44), 22 March 1996, p. 9.

12/ For further details, see WTO, op. cit.

13/ For further details on trade in so-called "new" products, see World Economic and Social Survey 1995 (United Nations publication, Sales No. E.95.II.C.1), chap. XI.

14/ For example, the international prices of non-fuel commodities were fairly robust throughout the 1980s (with the exception of 1986 and 1987) when expressed in units of special drawing rights (SDRs) - which consist of a hypothetical "basket" of five major currencies. But, in SDR terms, international prices of non-fuel commodities were less solid, on average, in the period 1991-1995 than in the 1980s - though they improved by 1995. Yet a third measurement alternative consists of deflating the dollar index by the dollar prices of the manufactured exports of developed economies - thereby deriving a so-called "real" price. In real terms, the international prices of non-fuel commodities were strong throughout the 1980s, but dropped significantly in 1991-1993, only recovering as of mid-1993. For further details, see World Economic and Social Survey 1996 ..., chap. III.

15/ See The Wall Street Journal, 8 July 1996.

16/ See also, World Economic and Social Survey 1995 ..., chap. XIII.

17/ All figures from IMF Survey, 3 June 1996, pp. 181-182.

18/ Ibid., p. 182.

19/ See, for instance, Alan Taylor, "Growth and convergence in the Asia-Pacific region: On the role of openness, trade and migration", National Bureau of Economic Research Working Paper, No. 5276 (Cambridge, Massachusetts, 1995).

20/ See Alice Amsden, Journal of Economic Literature, vol. 34, No. 2, p. 806.

21/ The point has been made that "large positive outliers ... contain more information than large negative ones", thereby justifying their closer examination; see Amsden, op. cit.

22/ For a full discussion of these issues, see Poverty Reduction and the World Bank: Progress and Challenges in the 1990s (Washington, D.C., World Bank, 15 April 1996).

23/ Ibid.

24/ Cape Verde, moreover, is the only least developed economy in this grouping.

25/ The forecast for 1996 for the developing countries as a whole is for an average annual rate of growth of per capita GDP of 4 per cent; see World Economic and Social Survey 1996 ..., table I.3.

26/ See, for example, Poverty Reduction and the World Bank ...

27/ For an in-depth discussion, see Judith Dean, "From protectionism to free trade fever? Recent reforms in developing countries", Open Economies Review, vol. 6, No. 4.

28/ See Global Economy Prospects and the Developing Countries, 1996 ..., p. 2-1.

29/ The speed of integration is then defined by an index number which is the simple average of changes in these four indicators, during the period from the early 1980s to the early 1990s, expressed as standardized scores. The standardized score is the variable, less its mean, divided by its standard deviation. The resulting standard variable has a mean of zero and a standard deviation of one. This procedure prevents the composite index from being dominated by constituents with the highest volatility; see Global Economic Prospects and the Developing Countries, 1996 ..., p. 2-7ff.

30/ South Asia and sub-Saharan Africa - with speed of integration indices of 0.87 and -0.46 - are the two extremes; see Global Economic Prospects and the Developing Countries, 1996 ..., appendix table 1.

31/ WTO press release, 28 August 1995.

32/ For further details, see WTO Focus, newsletter of the World Trade Organization, No. 9 (March-April 1996).

33/ The base period on which reductions were based was 1986-1988.

34/ This is usually defined as the comparable price of the product in the domestic market of the exporting country.

35/ The logic here is that if real wages are tied to the cost of living - so that real wages exceed the full-employment level and there is, therefore, unemployment - then liberalization may provide a substantial impetus to employment and output by lowering living costs and hence the cost of employing labour; see, I. Goldin and D. van der Mensbrugghe, "The Uruguay Round: An assessment of economy-wide and agricultural reforms", in Will Martin and L. Alan Winters, eds., The Uruguay Round and the Developing Economies, World Bank Discussion Paper No. 307 (Washington, D.C., 1995).

36/ For further details, see World Bank Policy Research Bulletin, vol. 6, No. 5 (November-December 1995).

37/ For further details, see G. Harrison, T. Rutherford and D. Tarr, "Quantifying the Uruguay Round", in Martin and Winters, op. cit.

38/ For further studies estimating the potential gains from the Uruguay Round, see report of the Secretary-General entitled "Macroeconomic policy questions: long-term trends in social and economic development" (A/50/429), pp. 33-34.

39/ For further details on trading blocs, see Clinton Shields "Regional trade blocs: Trade creating or diverting", Finance and Development (March 1995), pp. 30-32; see also Sheila Page, "Regional groups among developing countries: A framework for analyzing their formation and effects" (London, Overseas Development Institute, 1995).

40/ For further details, see WTO press release (PRESS/44), 22 March 1996.

41/ See, for example, Junichi Goto and Koichi Hamada, "EU, NAFTA and Asian responses: A perspective from the calculus of participation", National Bureau of Economic Research Working Paper, No. 5325 (Cambridge, Massachusetts, 1995).

42/ See, especially, Paul Krugman, "Is bilateralism bad?", in E. Helpman and A. Razin, eds., International Trade and Trade Policy (Cambridge, Massachusetts, MIT Press, 1991).

43/ See, for example, Paul Krugman, "The move toward free trade zones", in Federal Reserve Bank of Kansas City, Economic Review (November/December 1991), pp. 5-25.

44/ See, for example, Jagdish Bhagwati and Arvind Panagariya, "The theory of preferential trade agreements: Historical evolution and current trends", in American Economic Review, Papers and Proceedings, vol. 86, No. 2 (May 1996), pp. 82-88.

45/ See Gary P. Sampson, "Compatibility of regional and multilateral trading agreements: Reforming the WTO process", in American Economic Review, Papers and Proceedings, vol. 86, No. 2 (May 1996), pp. 88-98.

46/ See Joel Bergsman and Xiaofang Shen, "Foreign direct investment in developing countries: Progress and problems", in World Bank, Finance and Development (December 1995), pp. 6-8.

47/ A study by Chander Kant attributes yet an additional benefit to foreign direct investment. According to Kant, foreign direct investment inflows are always associated with a reduction in capital flight and such flows can, therefore, be expected to have magnified effects on the host economy; see Chander Kant, "Foreign direct investment and capital flight", Princeton Studies in International Finance, No. 80 (April 1996). Another study, by Borensztein, De Gregorio and Lee, suggests that foreign direct investment is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment. However, this higher productivity of foreign direct investment holds only when the host country has a minimum threshold stock of human capital; see Eduardo Borensztein, José De Gregorio and Jong-Wha Lee, "How does foreign direct investment affect economic growth?", IMF Working Paper (September 1994).

48/ See World Bank, Global Economic Prospects and the Developing Countries, 1996 ..., pp. 2-4.

49/ Bergsman and Shen, op. cit.

50/ Financial Times, 6 February 1996.

51/ Cited in Robin Broad and Christina Landi, "Whither the North-South gap?", Third World Quarterly, vol. 17, No. 1 (1996), pp. 7-17. Note that these 10 countries are not all designated as "developing" by the United Nations Secretariat. For further information on private flows, see, also, World Bank, Global Economic Prospects and the Developing Countries, 1995 (Washington, D.C.), table 7, pp. 84-85.

52/ See Development Assistance Committee, Organisation for Economic Cooperation and Development, Development Cooperation: 1995 Report (Paris, 1996), p. 59.

53/ Ibid., annex table 4.

54/ Ibid., annex table 33.

55/ Repayments to multilateral creditors - mainly IMF and the World Bank - have increased steeply, from 20 per cent (or $1 billion) of total debt service payments in 1980 to 50 per cent (or $3.3 billion) in 1994; see Financial Times, 14 March 1996.

56/ As a domestic indicator of the magnitude of the problem facing some of these countries, it should be noted that an Oxfam International study found that Uganda spends $3 per person annually on health care and $17 on debt repayment; cited in The New York Times, 10 June 1996.

57/ A new study by the World Bank and IMF, in preparation for their October meeting, estimates the cost of reducing the debt level of the poorest and the heavily indebted countries at between $5.6 and $7.7 billion over six years. The study - carried out as part of an attempt to hammer out a debt-relief plan - constitutes a first attempt by these agencies to put a precise dollar value on the cost of debt relief; see The New York Times, 10 June 1996.

58/ As evidenced by the High-level Intergovernmental Meeting on the Mid-term Global Review of the Implementation of the Programme of Action for the Least Developed Countries for the 1990s, New York, 26 September 1995. Moreover, at the recent G-7 economic summit at Lyon, France, from 27 to 29 June 1996, countries committed themselves to concentrate resources on those countries that need them most and that can use them effectively; grants and concessional financing should be directed primarily to meet the financial requirement of the poorest countries, which have no or limited access to the international capital markets, once they can demonstrate their commitment to create the conditions to use them effectively.

59/ The Least Developed Countries, 1996 (United Nations publication, Sales No. E.96.II.D.3), p. 8.

60/ Real commodity prices declined by 3.7 per cent between 1985 and 1990. Though they recovered slightly during 1991-1995, increasing by 1.2 per cent, this was mainly attributable to a one-time increase in 1994, when commodity prices rose by 14.4 per cent.

61/ Africa's terms of trade (excluding South Africa) declined by 8.1 per cent between 1985 and 1990 and by 3.2 per cent during the period 1991-1995; see World Economic and Social Survey 1996 ..., p. 240.

62/ Per capita food production declined in all war-torn least developed countries by an average of 3 per cent during the 1990-1994 period; DESIPA calculations, based on The Least Developed Countries, 1996 ..., annex II, table 4.

63/ Economic and Social Commission for Asia and the Pacific, "Mid-term review of the implementation of the Programme of Action for the Least Developed Countries for the 1990s: The Asian and Pacific Region" (TD/B/LDC/GR/Misc.1/Add.4/Rev.1, 24 August 1995), p. 34.

64/ Benin, Burkina Faso, the Central African Republic, Chad, the Comoros, Equatorial Guinea, the Niger, Mali and Togo.

65/ The Least Developed Countries, 1993-1994 Report (United Nations publication, Sales No. E.94.II.D.4), p. 33.

66/ Economic and Social Commission for Asia and the Pacific, "High-level Intergovernmental Meeting on the Mid-term Global Review of the Implementation of Action for the Least Developed Countries for the 1990s" (TD/B/LDC/GR/Misc.1/Add.4, 26 May 1995), p. 26.

67/ Ibid., p. 30.

68/ The Least Developed Countries, 1995 (United Nations publication, Sales No. E.95.II.D.2), p. 49.

69/ Ibid., p. 33.

70/ The Least Developed Countries, 1996 ...

71/ Ibid.

72/ These viewpoints are spelt out in Sarel, loc. cit.

73/ See Dani Rodrik, "King Kong meets Godzilla", in Albert Fishlow and others (eds.), Miracle or Design? Lessons From the East Asia Experience (Washington, D.C., Overseas Development Council, 1994).

74/ Ibid.
