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Ad Hoc Working Group to Explore the Issue of
Structural Adjustment for the Transition
to Disarmament
Geneva, 27 November 1995
Agenda item 5

**DRAFT REPORT OF THE AD HOC WORKING GROUP TO EXPLORE THE ISSUE OF
STRUCTURAL ADJUSTMENT FOR THE TRANSITION TO DISARMAMENT**

Rapporteur: Mr. Foster Gultom (Indonesia)

INTRODUCTION, ITEM 3 AND ORGANIZATIONAL MATTERS

Speakers: Chairman
Deputy to the Secretary-General
of UNCTAD
Director-General of UNOG
Chile
Russia
Japan
Egypt
Philippines
UNRISD
FWCC

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated **by Wednesday, 6 December 1995 at the latest** to:

The UNCTAD Editorial Section
Room E.8104
Fax No. 907 0056
Tel. No. 907 5656 or 5655

INTRODUCTION

1. The Ad Hoc Working Group to Explore the Issue of Structural Adjustment for the Transition to Disarmament met at the Palais des Nations, Geneva, from 27 November to ... 1995. In the course of its session, it held ... formal meetings and ... informal meetings.

Introductory statements

2. The Chairman said that the mandate given to UNCTAD at Cartagena indicated that all countries should consider transferring resources from military to civilian use. The Working Group's mandate referred to three important aspects of the issue: decreases in military spending would lead to a reduction in fiscal and external imbalances and increased availability of development finance; developing countries were urged to reduce military expenditure to the extent that it was excessive and taking into account the specific and individual situation of the countries concerned; and conversion of military technologies to civilian uses should allow adjustment of production structures to new development patterns, trade, technology and resource flows.

3. The Group must seek to add substance to these questions and to maintain a balance among them. UNCTAD could not make judgements on the level of military expenditures that was considered to be excessive or on what military facilities should be converted. These issues were political in nature, and UNCTAD must rather explore the developmental aspect of the issue and the best economic way to convert military-based resources for development.

4. It should be noted that structural changes emanating from the transition to disarmament were not restricted to a particular part of the world; they were taking place in developing countries all over the world, including countries which were emerging from war and must reintegrate the army into society. Such reconstruction efforts would entail the use of resources made available to developing countries as a result of the fact that they might no longer need a high level of military spending due to the change in their security situation or government. Developing countries might also receive the military facilities which had been used by foreign powers, in which case they would need technical assistance in converting them for civilian uses. All such efforts required support from the international community, including financial support.

5. The Deputy to the Secretary General of UNCTAD said that the Ad Hoc Working Group, the first ever convened by UNCTAD to address the issue in question, had been established as a result of the mandate given to it in the Cartagena

Commitment to explore the implications for world economic growth and development of structural adjustment for the transition to disarmament and the economic aspects of conversion of military capacities to civilian uses, without reference to judgements about appropriate levels of military expenditure.

6. In order to focus on a manageable number of issues for a single one-week session, the UNCTAD secretariat had to be selective in the issues investigated in its report. The report thus did not present all issues comprehensively, but rather examined questions within UNCTAD's mandate which were both mutually enriching with other ongoing UNCTAD activities and of interest to a large number of countries in the various regions.

7. The report had drawn on studies originating both outside and within the United Nations system, and it considered in particular issues related to the conversion of manpower and military bases, technological and scientific questions, the role of privatization, and effects on commodity markets and trade. It was important to note that, while the challenge of conversion took significantly different forms in developing, developed and transition economies, in all cases costs were likely to be incurred prior to the reaping of benefits, while costs and benefits might accrue to different parts of society. In developing countries, the transition often resulted from the ending of armed conflict, and adjustment involved the reconstruction of a war-torn society. Tackling such issues would be of immediate relevance to the current world situation.

8. The Director-General of the United Nations Office at Geneva and Secretary-General of the Conference on Disarmament said that the subject before the Ad Hoc Working Group was of tremendous importance, and perhaps one of the key issues in the field of arms regulation and disarmament. The United Nations had recognized that the end of tension and competition between the United States and the Soviet Union had provided three unique opportunities in the field of disarmament: a chance to integrate disarmament issues into the broader structure of the international agenda for peace and security; a chance to globalize the process of disarmament by facilitating regional, subregional, bilateral and unilateral measures; and a chance to revitalize the process.

9. Three realities were of great importance today: the nuclear arms race was no longer a threat to human existence; parties to the Non-Proliferation Treaty (NPT) had extended it indefinitely; and multilateralism prevailed in the field of disarmament, with the notable recent support from the United States, France, the Russian Federation and the United Kingdom for a complete ban on testing of nuclear weapons in 1996. Nevertheless, several new challenges had emerged,

including control of stocks of enriched uranium and plutonium and sophisticated weapons technology and the emergence of intra-State tensions after the end of the cold war. A more pragmatic approach to disarmament was needed, including arms regulation, as opposed to general and complete disarmament. Confidence- and security-building measures were important components of arms limitation and included, for example, reciprocal early exchange of information relating to routine military manoeuvres or testing of equipment.

10. With respect to weapons of mass destruction, greater efforts must be made to counter the proliferation of chemical and biological weapons and the means to deliver them, and to build upon the NPT. Regarding conventional weapons, the spread of light infantry and small arms (particularly land mines) had continued to undermine the international community's efforts to promote peace and stability. The activities of private arms dealers were practically free of international legal norms and might belie the reported trend toward lower world arms sales. A comprehensive approach to the question of conventional weapons was necessary. Regional and other non-global agreements to regulate conventional weapons, or to create additional nuclear-weapon-free zones or demilitarized zones, should be encouraged.

11. Despite the end of the cold war, accelerating disarmament and conversion had not been easy and had led to complicated social and economic problems, as costs were often borne before any benefits became apparent, difficulties arose in converting defence companies, and unemployment often rose. Thus, the major issue in this connection was to make the conversion process less painful both for the industries concerned and for people and the State. Perhaps the most complicated set of problems facing the international community in this field concerned the rehabilitation and rebuilding of war-torn societies.

Chapter I

**STRUCTURAL ADJUSTMENT FOR THE TRANSITION TO
DISARMAMENT AND THE IMPLICATIONS FOR WORLD
ECONOMIC GROWTH AND DEVELOPMENT**

(Agenda item 3)

12. For its consideration of this item, the Standing Committee had before it the following documentation:

"Structural adjustment for the transition to disarmament: report by the UNCTAD secretariat" (TD/B/WG.9/2).

13. The representative of Chile said that the end of the cold war had created conditions conducive to peace and security, and there was a need in all countries to increase the volume of resources allocated to social and economic development. Despite a number of United Nations meetings between 1990 and 1992 on the subject of military conversion, there had been no follow-up, no institutional framework had been established, and there had been no recommendation for additional resources or for any guidelines on how to complete work on the subject. The Trade and Development Board had implicitly conveyed its intention of closing the Ad Hoc Working Group, although that might not be in accord with members' intentions. The Group's primary mission was to provide the Board with recommendations in fulfilment of the mandate given at Cartagena. The subject was, however, appropriate as an issue for continuing analysis by UNCTAD.

14. With respect to the specific experience of Chile, the armed forces had been very actively involved in environmental issues - the army in various areas of environmental protection, such as disposal of toxic waste; the navy in various areas related to the marine environment; and the air force in non-military air and space-related activities. Such contributions by the military to civilian activities had been made not under a programme of conversion but rather as a diversion of manpower to civilian use. The armed services in many countries could provide considerable support for the environment and technological progress, incorporating a broader sense of national security than in standard military doctrine.

15. The representative of the Russian Federation said that the subject to be discussed by the Ad Hoc Working Group was of great importance. Structural adjustment, as outlined in the secretariat paper, was one of the preconditions for improving international cooperation, and in view of its importance, it should

be incorporated into UNCTAD's work and combined with other issues currently investigated by UNCTAD such as technology and trade. UNCTAD should concentrate on the impact of structural adjustment on competitiveness in world trade, technology transfer, release of manpower and other resources for national production, attractiveness for foreign investors and impact on external resource flows, and the role of the State in conversion projects. It was critical that the Group's work should result in practical recommendations.

16. On the whole, his delegation approved the secretariat's report, which covered the main issues. There were, however, a number of questions which required greater attention: the role of the State and macroeconomic policies; effects of conversion on capital markets and interest rate movements; effects on enterprises; the specific lessons which may be drawn from the experience of the former German Democratic Republic's experience; and the practical possibilities for UNCTAD, which might include, for example, the holding of expert seminars. These issues could be considered areas for future work by the secretariat.

17. Structural adjustment encompassed several elements which should be stressed: the exchange of national experiences; the trade policy implications of conversion, including the issues of non-tariff barriers and anti-dumping actions, particularly with regard to uranium, aluminum and other strategic goods; prospects for strategic commodities; and limitations on the transfer of technology which would help with conversion and adjustment. Furthermore, the problem of economic recovery in the wake of military conflict affected a number of countries throughout the world, and international cooperation in that respect would be crucial for the consolidation of peace.

18. In all these areas UNCTAD should help by studying the issues, although it would not necessarily be the centre of work in this area, nor should such work take priority over other areas of activity. The Working Group should seek to reach mutually acceptable decisions within the context of consensual preparations for UNCTAD IX.

19. The representative of Japan said that one of the lessons that could be learnt from his country's national experience was the importance of allocating resources, as far as possible, to productive purposes. As indicated in the Cartagena Commitment, reducing military expenditure and redirecting resources clearly had a positive impact on economic growth and development. Reduced military spending could produce savings in the Government's budget, and production could rise if physical and human resources could be redirected to productive use. This became possible for developing countries in three

circumstances: when internal or external conflict ended; when control over bases formerly used by foreign troops reverted to local control; and when there was an internal decision simply to reduce military capacity.

20. This issue had become even more important in the context of the general trend towards increasing globalization and liberalization, and especially in the light of poverty, environmental degradation, population explosions and epidemic diseases which, in some cases, posed more serious threats to national security than military concerns. The most important goal was development, and in its allocation of resources for economic cooperation, Japan took account of the trends in the military expenditure of recipient countries. Japan had been able to consistently increase its annual development assistance as a result of its policy of restraining its defence budget, and it had strongly supported those developing countries which were attempting to recover from internal or external conflicts.

21. UNCTAD was not an appropriate forum for discussion or political decisions on cuts in military expenditure or diversion of resources into development activities in sovereign countries, and the Ad Hoc Working Group should focus on ways in which such reductions could release resources and on how such resources could be used to spur development once a decision had been made to decrease military expenditure. UNCTAD could act as a forum for debate based upon national experiences in order to draw lessons and clarify the potential role of international support, particularly with regard to the experience of war-torn countries which were making enormous efforts to adjust.

22. The spokesman for the African Group (Egypt) said that the issue before the Ad Hoc Working Group had been dealt with in other organs of the United Nations system, namely the General Assembly, UNIDIR and UNDC. Egypt had participated in drafting the paragraphs of the Cartagena Commitment concerning the issue of structural adjustment and disarmament, and it had been agreed that UNCTAD should not deal with aspects of the subject that lay outside its mandate, such as national security and the retraining of labour released from the military sector; rather, UNCTAD should focus on the trade and development aspects of the subject and on the related aspects of finance, investment and technology transfer, as well as the relationship between those topics and developing countries' requirements for development.

23. The economic aspects of adjustment and conversion had been dealt with in the General Assembly in the 1960s, and at that time the Soviet Union had made a proposal to decrease the military budgets of developed countries by 10 per cent and transfer the savings to developing countries. The subject was multifaceted,

and it had not therefore, been possible to discuss it except in plenary; it had never been referred to any subsidiary body. UNCTAD should concentrate on the financial aspects of adjustment and in particular the decline in official development assistance and the fact that developed countries had not adhered to the target of 0.7 per cent of GNP as ODA to developing countries. Lower military expenditure in countries with large military establishments should allow an increase in such assistance. In that connection, however, the major industrial countries had trimmed their military budgets, and this would help to decrease budget deficits and thereby lower inflation and real international interest rates, which would in turn moderate negative economic shocks in developing countries.

24. Only after Cartagena had there been discussion of the need for a mechanism to investigate the issue before the Group. A number of questions referred to in the secretariat's report, such as conversion of military industries and bases into civilian use, could not be tackled without the participation of military experts. One issue in particular, the destruction of chemical weapons, would entail significant costs if it was taken up. Several issues should properly be taken up by bodies outside UNCTAD, specifically the World Bank, the International Labour Organisation, and possibly the United Nations Industrial Development Organization.

25. The representative of the Philippines said that the subject of the Ad Hoc Working Group was most relevant for developing countries in terms of the peace dividend or the conversion of military expenditure into development assistance or investment in developing countries, because the latter's own military expenditure and production was generally relatively small. Expectations in this respect had, however, been only partially realised, with a decline in military expenditure of \$207.4 billion but an increase in official development finance of only \$31.2 billion between 1987 and 1993, with the result that ODA had been falling steadily as a percentage of GNP, dropping from 0.34 per cent in 1988 to 0.29 per cent in 1994. Experience showed that falling military expenditure did not automatically translate into higher ODA.

26. His country's national experience might hold lessons for other developing countries in similar situations. The Subic Bay naval base case was in fact not an example of structural adjustment for disarmament, since the base had been returned to the Philippines after a decision not to renew the lease on them. However, the economic consequences were very significant, as the bases were the second largest employer after the Government, the country had been receiving \$180 million a year in base-related economic aid, and the United States' security umbrella had allowed a relatively small national defence budget.

27. The biggest and most pressing problem was the reabsorption of the displaced labour into the general labour force. There had been some success in attracting investment into the area because of the geographical advantage of being located in a fast-growing region and the quality of the harbour at Subic. Conversions elsewhere without the benefit of such advantages might not, however, be successful in replicating this experience.

28. The representative of the United Nations Research Institute for Social Development (UNRISD) said that populations in war-torn countries welcomed peace with understandable hopes for a better life, but the challenges following cease fires were more complex than during war. The international community could contribute positively to meeting these challenges, which included reintegrating uprooted people, moving from military dominance to effective civilian government, and creating political and civilian institutions.

29. The recent major conflicts outside Europe had been fought in the poorest countries. Here, the major task was demilitarization, but the international community had failed to ensure adequate reintegration of former combatants, thus creating a risk of renewed outbreaks of war. The relevance of the Working Group to ongoing work on war-torn societies was based on the premise that reintegration and rehabilitation strategies were the building blocks of development.

30. The representative of the Friends World Committee for Consultation (FWCC) said that, without disarmament, the mere ending of violent conflicts offered no assurance of a return of economic security and social stability for several reasons. Military personnel no longer serving security functions might develop disruptive activities within the civilian economy, while the demobilization of untrained ex-combatants exacerbated unemployment and could result in armed banditry or other criminal activity.

31. In some instances, post-war economic development efforts which incorporated the global trends of globalization and liberalization had frustrated efforts to rebuild the civilian economy because of the sudden imposition of deregulated markets on traditional economies, leading to opportunistic investment and new concentrations of wealth. Traditional economic rights and opportunities were thus eroded and new conflicts and insecurities emerged. Countries with economies in transition pursuing conversion and demobilization in the post-cold war world were also constrained by limited markets, investment and economic knowledge.

32. UNCTAD should play a role in the area under discussion in three ways: by analysing economic aspects of arms conversion and demobilization of soldiers, including the reallocation of financial and other resources, reorientation of

research and application of technology, restructuring of industry, alternative civilian opportunities for military bases, and issues related to economic planning and growth, market access and investment capital flows; by facilitating the exchange of experience among its member States; and by contributing to multilateral, bilateral and NGO efforts to provide technical assistance connected with the economic and social aspects of disarmament at the national and local levels.

Chapter II

ORGANIZATIONAL MATTERS

A. Opening of the session

.. The session of the Ad Hoc Working Group to Explore the Issue of Structural Adjustment for the Transition to Disarmament was opened on 27 November 1995 at the Palais des Nations, Geneva, by Mr. R. Lawrence, Deputy to the Secretary-General of UNCTAD.

B. Election of officers

(Agenda item 1)

.. At its 1st (opening) plenary meeting, on Monday, 27 November 1995, the Ad Hoc Working Group elected its officers, as follows:

<u>Chairman:</u>	Mr. Shohei Naito	(Japan)
<u>Vice-Chairmen:</u>	Mr. Yahcen Aboutahir	(Morocco)
	Mr. Rashid Kokab	(Pakistan)
	Mr. Alejandro Rogers	(Chile)
	Mr. Ioannis Kinnas	(Greece)
	Mr. Zdenek Venera	(Czech Republic)
<u>Rapporteur:</u>	Mr. Foster Gultom	(Indonesia)

C. Adoption of the agenda and organization of work

(Agenda item 2)

.. Also at its opening plenary meeting, the Ad Hoc Working Group adopted the provisional agenda for the session (TD/B/WG.9/1). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Structural adjustment for the transition to disarmament and the implications for world economic growth and development
4. Other business
5. Adoption of the report of the Ad Hoc Working Group to the Trade and Development Board

D. Other business

(Agenda item 4)

[To be completed as appropriate]

**E. Adoption of the report of the Ad Hoc Working Group
to the Trade and Development Board**

(Agenda item 5)

[To be completed]