



SECOND COMMITTEE
6th meeting
held on
Thursday, 13 October 1983
at 10.30 a.m.
New York

SUMMARY RECORD OF THE 6th MEETING

Chairman: Mr. DIETZE (German Democratic Republic)

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The meeting was called to order at 10.50 a.m.

STATEMENT BY THE UNDER-SECRETARY-GENERAL FOR INTERNATIONAL ECONOMIC AND SOCIAL AFFAIRS

1. Mr. YOLAH (Under-Secretary-General for International Economic and Social Affairs), referring to the statement made by the Director-General for Development and International Economic Co-operation, confirmed that the Secretariat would support all the efforts of the Committee so as to enable it to perform its task. As the Chairman had indicated, that task consisted mainly in considering measures to facilitate the commencement of global negotiations.
2. After four years of global recession, the international economic and financial situation was still very unsettled. It was impossible to say whether the international financial system was out of danger and whether the austerity measures imposed on many developing countries would not erupt into violent upheaval. Nor could one be confident that the world economy was moving towards durable growth or that the developing countries would achieve by 1990 the target economic growth rates specified in the International Development Strategy.
3. If the international community had adopted some of the proposals which had been made in the General Assembly, the Economic and Social Council, the United Nations Conference on Trade and Development and elsewhere, a more optimistic assessment of the situation might have been possible.
4. At the summer session of the Economic and Social Council, varying opinions had been expressed on short-term economic prospects. In fact, the latest data, which showed that the global economic recession was not yet over, confirmed the severity of the situation facing the developing countries. A significant recovery was taking place in North America but had not yet reached Western Europe, and in 1983, for the third consecutive year, the developing countries had experienced almost no economic growth. Latin America was undergoing a sharp economic contraction, reflected in several countries in a considerable decline in per capita real income. That contraction was the direct result of the severe retrenchment programmes necessitated by heavy debt burdens and cutbacks in capital flows. Because of a slackening in international demand, and in many cases, of strict austerity régimes, output was also declining in the oil-exporting countries which, from being exporters of capital, were slipping into a significant deficit position. In Africa, economic growth continued to lag behind population increases; for the sixth consecutive year, per capita output had declined for most of the region. Living standards had in many cases fallen below pre-independence levels. Southern Africa was in a particularly critical situation because of a long drought.
5. With few exceptions, stringent demand management and import restraint continued to be the rule in developing countries. Because of the lack of external financing, official foreign exchange reserves had been so heavily drained that they were not even adequate to finance imports over a three-month period.

(Mr. Yolah)

6. The deflationary international trading and financial environment was currently aggravating those liquidity problems. International trade had continued to shrink; bank lending to developing countries had fallen off sharply. Indeed, the rate of capital inflows might soon fall significantly below the outflows to commercial banks, so that developing countries would then be transferring real resources to the North.

7. The situation of official multilateral credit was particularly disturbing. Despite the solid arguments advanced in favour of a substantial allocation of special drawing rights, no action had been taken at the recent meeting of the IMF Interim Committee and instead there had been a recommendation to reduce relative access to Fund resources. It remained uncertain when the agreement for a limited expansion of IMF quotas would be implemented. For the time being, the Fund had exhausted the resources for undertaking new lending programmes.

8. At the IMF/IBRD annual meetings, numerous eminent persons had expressed concern about the fact that a number of developing countries were approaching the political limits of tolerance in adjustment programmes. Yet those countries were still being pressed to intensify their adjustment efforts. Clearly, the international community needed to find complementary solutions.

9. Economic prospects through 1985 were not very encouraging. The industrialized countries were not in a synchronized recovery. Europe would lag behind North America and, even if the European recovery arrived with more strength in 1985, there was a possibility that by then growth in North America might have slowed down, producing a negative effect on the overall growth rate of the developed market economies. There was thus a need for enhanced co-ordination of those countries' macro-economic policies.

10. The short-term outlook was one of unrelieved hardship in the developing countries and the poorest of them would benefit least from the "trickle-down" recovery. The benefits to them would be reduced by the proliferation of trade barriers, the high level of interest rates and the tightening of lending. The proceeds from any recovery in their exports would have to go to debt servicing and to the rebuilding of reserves. The amounts left over for import growth would not be enough to allow rates of capital formation and growth to return to previous levels.

11. In its World Economic Survey, 1983, the Secretariat had forecast a 2 per cent growth rate for the developing countries. Many had found that figure pessimistic; but it was currently estimated that their growth would not exceed 0.5 per cent. That example showed that the present international policy thrust tended to stimulate the growth of the industrialized countries at the expense of that of the developing countries.

12. Such a trend was intolerable in an interdependent world. The widespread austerity programmes being pressed on the developing countries would only result in further retrenchment of investment and output and drastic cuts in living standards.

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(Mr. Yolah)

That would all have serious social and political repercussions. Continued retrenchment of activities in the developing countries would reduce their long-term debt-servicing capacity and would exert a significant deflationary impact on the world economy, which would weaken the recovery in developed countries.

13. The current objective should be growth, not austerity. In that connection, a number of immediate measures were required. A significant allocation of SDRs would be an important component of a programme of action to alleviate the liquidity problems confronting developing countries. The recent decline in international liquidity, the magnitude of excess capacity and unemployment in both developed and developing countries, the contraction in world trade, the rapid decrease in the rates of inflation and the apparent winding-down of inflationary expectations in the industrialized countries were all solid arguments in favour of such a measure.

14. An expansion of liquidity into the international financial system could have considerable benefits, as simulated on the global model of Project LINK. Increased drawings on the IMF Compensatory Financing Facility, totalling \$55 billion over a five-year period, would enable the developing countries to maintain the volume of their imports and to finance the resulting deficit. The developed countries would also benefit from a stimulus to their growth and an improvement in their trade balances. The adoption of that measure would be a concrete follow-up to the work of the sixth session of the United Nations Conference on Trade and Development.

15. Negotiations for a substantially enlarged seventh replenishment of the resources of the International Development Association should be concluded by the end of the year, if that body was to continue to perform its role. A large increase in the capital of the multilateral institutions was also required. More generally, flows of official development assistance should be increased substantially, particularly to the least developed countries. In that regard, special attention should be paid to the sub-Saharan countries of Africa.

16. Greater emphasis had to be placed on measures to develop foreign investment flows, a task which could be facilitated by early completion of the International Code of Conduct for Transnational Corporations.

17. There was a crucial need to restore the dynamic role of trade. The World Development Report, 1982 indicated that a reduction of trade barriers by the OECD countries would be among the most effective means available to spur world development. It was of the utmost importance that developed countries implement and monitor, on a priority basis, the Williamsburg commitment to halt protectionism and to reverse it by dismantling trade barriers.

18. Efforts to solve the international debt problem should be regarded as a global responsibility. Indeed, as had been shown in a recent study conducted by ECLA, if the external environment had not deteriorated there would be no debt crisis. The time was ripe to undertake serious consideration of the numerous proposals to reschedule the debts of the developing countries and to examine other ways of eliminating the crippling effect of debt servicing.

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(Mr. Yolah)

19. Turning to the review and appraisal of the International Development Strategy for the Third United Nations Development Decade which the United Nations system would soon be undertaking, he briefly outlined two of the policy scenarios which the Secretariat had reviewed in order to give an indication of the impact that basic reforms might have on world growth during the balance of the Decade were they to be adopted at the present time.

20. The first scenario simulated a three-fold policy package to increase developing countries' exports, to achieve the ODA target and to lower interest rates. The results of that model indicated a significant expansion of world production, trade and employment. The increased growth would be evenly distributed between developed and developing countries and the trade and balance-of-payments position of the latter would improve dramatically.

21. The second scenario simulated the limitation of armaments expenditure at current levels and the transfer of half the released resources to developing countries. In that simulation, economic growth in developing countries would accelerate rapidly and could be expected to approach the 7 per cent target set in the Strategy by the end of the Decade.

22. Both scenarios illustrated the substantial benefits which would be derived from enhanced international co-operation and concerted international action. The wisdom of such action had now to be convincingly demonstrated in order for Governments to show the political will needed for progress. The review and appraisal process should serve that purpose.

23. Growing interest had been expressed by a wide range of countries in the convening of an international conference to devise an improved international monetary, financial and trading system. Proposals emanating from various quarters in both the industrialized and the developing world had been made on the subject. What was needed now was to reach agreement, within a certain time-frame, for the harmonization of the proposals in order to develop a convergence of views. The first step could be the identification of particular matters and measures on which immediate action could be taken. The Director-General for Development and International Economic Co-operation had expressed the strong hope that the present session of the General Assembly would provide an opportunity to initiate that process. He had also recalled the suggestions of the Committee for Development Planning regarding the establishment of an ad hoc study group to examine further the substantive issues underlying the proposal for a conference. The group - which might consist of 15 to 20 experts of the highest standing - would consider such issues as the stability of exchange rates, the adjustment process, the creation and distribution of international liquidity, balance-of-payments facilities, general issues of finance (development financing, concessional financing and the debt problem), and the institutional structure which would support such a monetary and financial system.

24. Turning to the important initiatives the Committee had launched the previous year in the energy sector, he drew attention to the Nairobi Programme of Action

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for the Development and Utilization of New and Renewable Sources of Energy and emphasized that the impetus that Programme had given to the search for a more diversified combination of energy sources to support world economic growth should not be lost. The first meeting of the Committee on the Development and Utilization of New and Renewable Sources of Energy - an intergovernmental body open to the participation of all States - had marked the completion of the first phase of the establishment of an appropriate institutional machinery. It was now time for action on the basis of the consensus reached by the Committee. The formulation of the agenda of the second session of the Committee would provide an important opportunity to advance work for intensified implementation of the Programme of Action.

25. He concluded by citing various possible manners in which the United Nations could co-operate in the energy field. In that connection he noted the Secretariat study on "The Development of Energy Resources of the Developing Countries" (E/1983/91) - the addendum to which would soon be available - that set forth the basis for national, bilateral and multilateral action for the financing of accelerated exploration and development efforts. In that connection he drew attention to the proposal to create an energy affiliate of the World Bank. The Secretariat could undertake further studies and also promote economic and technical co-operation among developing countries and especially among national energy and oil enterprises, through the collection, analysis and dissemination of information on the capacities and practices of the various countries. Although it was true that about two thirds of the oil exploration effort in the energy-deficient developing countries had been carried out in recent years by national oil companies, further analysis indicated that the private sector remained the main source of risk capital in oil exploration. Ways of attracting additional investment must be examined, including through the provision of exploration and development agreements under equitable arrangements. An interregional symposium, with participants from developed and developing countries representing both the public and the private sectors, would be very useful.

GENERAL DEBATE (continued)

26. Mr. ST. AIMÉE (Saint Lucia) recalled that the world situation had become increasingly complex and interdependent in the 37 years since the present economic system had been created, and the trickle-down theory - according to which recovery in the developed countries would create conditions for growth in the developing countries - had proved false.

27. There were three categories of developing countries: those which provided finance; those which could borrow and ran into debt and those which were condemned to a life of perpetual poverty. Believing that they could work within a system not fully designed for them, some countries which possessed some resources had attempted, through astute development projects, to provide a better life for their peoples. That had resulted in massive debt accumulations which currently threatened to destroy the very foundations of the existing system. Developing countries with few natural resources had been hard hit by the world recession and the ensuing protectionist measures adopted by the developed countries. Their

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(Mr. St. Aimee, Saint Lucia)

meagre resources had dwindled away and they had been forced to borrow. As for all the others, those which were not creditworthy, they had been and continued to be neglected. It was clear that adjustments were necessary, for unless prompt action were taken paralysis and chaos might ensue.

28. Saint Lucia belonged to the third category. It was an island developing country which was dependent on a few exports and on official development assistance and it could not venture into the world financial markets. Moreover, because of its small population and the existence of a few successful businesses it suffered from the over-emphasis placed on per capita GDP as an indicator of economic growth and a yardstick for measuring which countries could receive certain types of aid, in particular aid on concessional terms. Moreover, during the last three years it had been ravaged by three hurricanes. They had had devastating effects on the banana industry, which accounted for 70 per cent of its foreign exchange earnings. It therefore needed to spend vast amounts to rebuild that sector. Like many island countries which were exposed to natural disasters it was caught in a vicious circle. He therefore drew attention to paragraphs 7, 8 and 9 of resolution 138 (VI) adopted by the United Nations Conference on Trade and Development at its sixth session, noting that that resolution dealt specifically with the situation of such countries. He welcomed the humanitarian action of the United Nations Disaster Relief Co-ordinator and urged the international community to take immediate steps to help disaster-stricken island countries to recover as soon as possible. The search for solutions to long-term economic problems must not stand in the way of immediate assistance to such countries for, if they were forced to wait they might sink into oblivion. His delegation would develop concrete proposals on the matter in due course.

29. Mr. MUÑIZ (Argentina) said that the economic crisis that had continued since 1980 - the gravest and longest for the past 50 years - was particularly harmful to the developing countries. Trapped by the existing system of international economic relations, they faced, on the one hand, a contraction of the international market - which was increasingly protectionist and characterized by increasingly unfavourable terms of trade - and, on the other, a decline in international financial contributions and a continuation of record-high interest rates. The debts of non-oil-exporting developing countries had therefore risen in 1983 to \$665 billion, the servicing of which accounted for 24 per cent of their exports.

30. Faced with that situation, the developing countries had made unprecedented adjustments. As a result, the deficit on current account of the group of 20 most indebted countries had fallen by 45 per cent. In contrast, there had been little or no improvement in interest rates. The situation therefore remained bad and in many cases had even worsened because of the re-emergence of protectionist practices.

31. The only apparent way out of the crisis, which would be for the debtor countries to make exceptional adjustments, was impracticable by reason of the extent and gravity of internal and external factors. The strategy proposed by the developing countries in New Delhi and Buenos Aires, which envisaged essential and immediate measures and the restructuring of international economic relations with a

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(Mr. Mufiz, Argentina)

view to establishing a new economic order, had met with no response from the developed countries, either at the Williamsburg summit meeting or at the sixth session of the United Nations Conference on Trade and Development (UNCTAD). The developed countries seemed to forget that, in a general crisis, recourse to restrictive policies would merely aggravate the situation.

32. The example of Latin America was illustrative: from 1980 to 1982, the terms of trade had become even worse than they had been between 1931 and 1933, the darkest period of the great depression. That region, whose external debt had risen during the 1970s, had had to pay interest of nearly 24 per cent. In addition, there had been a sharp reduction in the net flow of capital and a marked expansion in net transfers for services which, by eliminating the trade surpluses, had necessitated the financing of a large part of the deficit on current account out of international reserves. Despite a reduction in imports, the situation remained extremely serious.

32A. In order to overcome the crisis, the countries of Latin America and the Caribbean, at their recent meeting in Santo Domingo, had undertaken to give priority to problems of external financing - particularly the external debt - and international trade. They had also agreed that the well-being and progress of their peoples must not be at the mercy of recovery in the developed world, which did not seem fully aware of the impact of the crisis on the developing countries and of the resulting dangers for the world economy.

33. The industrialized countries appeared to be replacing multilateralism and co-operation with bilateralism and to reduce the world to an East-West confrontation. That approach exacerbated international tension, spurred the arms race and led to the reimposition of economic controls as a means of political pressure. Despite the lack of success of the sixth session of UNCTAD, the developing countries would continue to seek new forms of international co-operation, through dialogue and joint efforts. Those who thought they could solve, alone or within a restrictive framework, international economic, financial and trade problems were mistaken. The participation of the developing countries in any sustained effort to solve the current complex problems was essential. To deny that fact might lead to further collective retrenchment. The developing countries had once again proposed solutions to the developed countries; they now awaited a reply.

34. Mr. FISCHER (Austria), noting that the Second Committee played a central role in the North-South dialogue, said that every effort should be made to improve the Committee's performance, as part of overall endeavours to strengthen the United Nations as an effective instrument of international co-operation.

35. The results obtained by the Committee had not always been satisfactory. Too much time was often spent in sterile debate resulting in resolutions without any discernible impact, whereas sustained dialogue and negotiations would permit real progress on certain matters. Too often, the Committee's work was also hampered by documentation that was unsuitable, submitted too late or in a format that was not

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(Mr. Fischer, Austria)

readily utilizable. Many of the problems were probably related to the fact that the Committee's approach to the issues on its agenda was basically the same as in the 1960s, whereas the international situation had undergone dramatic changes. The Committee should, at the current session, thoroughly examine its methods of work. That exercise should not be limited to procedural questions: it should include a realistic assessment in political and operational terms of the results that the Committee could be expected to achieve. If it were able to identify more clearly the areas where action was possible, the Committee could function more effectively. Account should be taken of the work of other forums, inside and outside the United Nations system, the aim being to achieve a more rational division of labour. That would require a better flow of information and better co-ordination of ongoing efforts at both national and international levels.

36. In addition to the need for political will to seek solutions through co-operation, it seemed essential to arrive at a degree of common understanding of the role and function of the Second Committee and of the United Nations in general. Some wished the United Nations to be the main, if not the only, negotiating forum, whereas others were prepared to assign to it a much more limited role. There was also a need to examine the machinery and functioning of the United Nations system in respect of economic co-operation for development, particular account being taken of existing decisions on the strengthening of the economic and social sector of the United Nations and on the revitalization of the Economic and Social Council. In that regard, his delegation looked forward to participating in the informal consultations envisaged by the Council's decisions 1983/164 and 1983/181.

37. In his annual report on the work of the Organization (A/38/1), the Secretary-General had stated that "the machinery [of international institutions] is running and the wheels are turning, but it is not moving forward as it should". In order to remedy the situation, he had initiated a thorough review of the structure and management of the United Nations which should, his delegation thought, make it possible to review also the work programme of the Organization in the economic and social fields, to which more than 33 per cent of all resources requested in the 1984-1985 budget were devoted.

38. By their very nature, United Nations activities were dynamic; consequently, there was a need to review decisions whose original importance had diminished. The setting of priorities in the programme budget for 1984-1985 was a first step in that direction. Austria also looked forward to receiving the statement of financial implications - to be submitted at the current session for the first time - indicating the extent to which the activities called for in the draft resolutions were already provided for in the current work programme of the United Nations, describing the new output to be produced and indicating the full and net costs entailed. That was the only means of assessing the impact of the Committee's decisions. A strengthening of the co-ordination and monitoring function was therefore essential.

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(Mr. Fischer, Austria)

39. The holding of informal consultations before the work began appeared to be the best means of defining the form and substance of the negotiations. Beginning the negotiating process from the centre, efforts could be made to enlarge the areas of agreement. Such a procedure would be less time-consuming and would probably be more productive than the traditional procedure. Within the Second Committee, the arduous task of elaborating draft resolutions had in the past been left almost exclusively to one group of countries, the Group of 77, which seemed only natural, since the issues before the Committee were of direct concern to the developing countries. However, the growing interdependence of developed and developing countries and the close relationship among global problems called for a more active role by other groups and countries. Negotiations conducted on the basis of groups were essential already from a practical standpoint; they were also important in providing a clearer focus and strengthened the leverage of a weaker negotiating partner. However, there was a need for greater flexibility in the composition of groups. Those composed exclusively on the basis of geographical or political criteria might not be able to produce the desired results. That had perhaps been the case at the sixth session of UNCTAD. A serious review of the negotiating procedures might therefore be a prerequisite for more successful negotiations. Subject-oriented instead of mere geographical groupings of countries could also play a significant role. He therefore suggested that, during the current session, the Committee should establish an appropriate framework of informal contacts and consultations at an appropriate level with the participation of all groups and interested delegations as well as representatives of the Secretariat. Such a dialogue should be conducted in a co-operative spirit and in a realistic and pragmatic manner. His delegation was aware that any departure from the traditional pattern of work was not without risk. Nevertheless, in view of the urgency of current problems, there should be no hesitation. The only way to restore the authority of the United Nations and to strengthen its role as an instrument of international co-operation was to use it more effectively.

The meeting rose at 12.20 p.m.