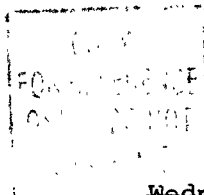




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SECOND COMMITTEE
6th meeting
held on
Wednesday, 10 October 1984
at 10.30 a.m.
New York

SUMMARY RECORD OF THE 6th MEETING

Chairman: Mr. HARLAND (New Zealand)

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GENERAL DEBATE (continued)

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The meeting was called to order at 10.45 a.m.

GENERAL DEBATE (continued)

1. Mr. YOLAH (Under-Secretary-General for International Economic and Social Affairs) said that the strong economic recovery in North America had not had immediate positive effects in many countries of Europe, Asia, Latin America and, especially, Africa. 1984 had not brought a return to a positive increase in per capita incomes for developing regions that had suffered a decline in past years. Moreover, the current complacency in certain international financial circles seemed inappropriate in view of the precarious situation of most developing countries. Rigorous policies were necessary in the current difficult times, but something further was required. All countries, particularly the major industrial countries, should also strive to co-ordinate their domestic policies in favour of a more convergent expansionary path.
2. Analysing the current economic situation, he noted that it was evolving in an increasingly unbalanced and fragmented manner, although world growth and trade were beginning to regain their former pace. First of all the growth process was suffering from severe constraints in many countries. In Europe, the average unemployment rate in 1984 would be above 10 per cent. In Africa and Latin America, per capita income would again fall. At the same time, there had been a marked deterioration in international financial flows to developing countries. Interest payments outflows were currently greater than the net inflow of foreign capital, from whatever source, and a reverse transfer of resources to the developed countries was now taking place.
3. In most of the Latin American countries, long-term economic growth and policies for social progress remained hostage to the management of external accounts and debt servicing. The current practice of devaluation and the continuation of austerity programmes in that region had led to increased inflation rates and worsening unemployment. It was important to recognize that rapid export growth to service external debt did not necessarily imply a recovery in domestic consumption or an improvement in living standards.
4. The implementation of adjustment programmes in Africa had led to a reduction in inflation and in certain public sector deficits, notwithstanding the social hardships created (government payroll cuts, the phasing out of consumer subsidies and shortages of essential goods). However, those increased domestic efforts continued to be jeopardized by external factors: harvests were still poor in southern Africa and there was inadequate rainfall in east Africa. Although devaluation had helped to improve the trade balance of the countries of the region, a decline in net capital inflows was contributing to a further reduction in import financing capabilities. The necessity of addressing immediate difficulties was preventing the region from making the investments required for its long-term economic survival. It was therefore crucial that the international community should continue to focus priority attention on the special needs of Africa.

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(Mr. Yolah)

5. The decline in commodity prices, especially for non-oil commodities (copper, coffee, cocoa) was another cause for concern. It was further aggravating the difficulties of the debtor countries, which exported those commodities in large quantities, and slow growth in the economies of the Western European countries made it unlikely that commodity prices would recover, even in the medium term.

6. It was a source of satisfaction that economic growth in the United States had been stronger than expected. That growth had been marked by an increase in domestic demand that had benefited the world economy. But it had meant a doubling of the trade deficit, an increase in interest rates and in the level of the dollar. Moreover, the mounting current account deficit had caused a very large flow of capital into the United States.

7. On balance, the recovery had not been equally beneficial for all countries. Exporters of primary commodities had benefited less than exporters of manufactured goods. In addition, increased export income had been partially or totally cancelled out by the negative effects of higher interest rates, particularly for the debtor countries. Lastly, the strong dollar and the high interest rates were causing the countries of Western Europe to adopt a very cautious stance, even though a more confident policy could help to attenuate the problem of unemployment.

8. Thus, while the recovery in the United States was an important and positive development, it was not in itself sufficient to set in motion a widely spread global recovery. That phenomenon was less a reflection of the strength of the United States recovery than of the interdependence of the world economy. Consequently, more attention should be paid to factors which continued to hold back growth in the majority of countries than to a possible moderation of economic growth in the United States.

9. For some time there had been a lack of consensus on the conduct of economic policy among the major industrialized countries. Their policies had sometimes even been diametrically opposite. Moreover, national policies generally placed too great an emphasis on restrictive monetary measures. Such contradictions explained the limited extent of the recovery, and the major imbalances in trade and capital accounts, and it was to be feared that the combined effects of those contradictions and the accompanying imbalances would reinforce trends likely to perpetuate high interest rates. Thus the key issue remained whether the major industrialized countries could take advantage of the recovery and of low inflation to lessen those contradictions at the national level. The European countries could achieve a greater convergence of national policies by adopting, for example, a more confident fiscal policy stance. Restrictive monetary practices could be eased, particularly in the United States. Such an advance towards macro-economic co-ordination would help to strengthen the recovery in Europe and to lower interest rates. The debt of many developing countries would be alleviated as a result, and their import demands would be stimulated. In short, such an effort would help to create the conditions for general expansion.

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10. With regard to international financial issues, he said that international surveillance was essential in that area to enhance policy compatibility among the major economies and to bring about a convergence in their economic performance. That role was enshrined in the Articles of Agreement of the International Monetary Fund and there was a need to enlarge its scope, particularly with regard to surveillance over national policies which had major repercussions on the global economy.

11. Views differed on models for development proposed for the world economy. It was, therefore, essential to institute a dialogue on general policy trends, both in the Second Committee of the General Assembly and in other fora, in an attempt to contribute to the shaping of a commonly shared global perspective which all countries could support. At the recent meetings of the World Bank and the International Monetary Fund, there had been increased recognition of the need to lessen current national policy conflicts. In that spirit, the Interim Committee of the Board of Governors on the International Monetary System had stated that the major industrial countries should pursue policies that resulted in non-inflationary growth, guaranteed developing countries adequate access to markets, and provided means for adequate financing to encourage and facilitate adjustment. In practice, however, a continuing deflationary thrust and a reduction in access to Fund resources could be observed, and there was no provision for any new SDR allocation. Indeed, it was now maintained, laying excessive stress on financial discipline, that reserve inadequacies should be met through further adjustment.

12. On the debt problem, there was unhealthy, widespread complacency. The avoidance so far of international financial collapse had encouraged the view in some quarters that short-term austerity programmes and case-by-case reschedulings could solve the problem over the medium term. It was said in that regard that the political fabric of developing countries had held up well and that the current recovery had created a favourable climate. Examination by the Department of International Economic and Social Affairs provided little support for the credibility of those scenarios. The recovery process alone would not suffice to solve the debt problem and complementary measures would be required to liberalize trade, restore bank lending and to ensure a more central role for the IMF as a chief provider of payments support, while measures for debt relief for low-income countries were urgently needed. The retreat from multilateralism which the Secretary-General had referred to in his annual report (A/39/1) on the activities of the Organization, was evident in development finance. ODA was virtually stagnant, IDA-VII replenishment had been delayed, and there had been no action on the World Bank Emergency Fund for Africa. Most disturbing was the recent questioning of the role of the World Bank and the need for a capital increase; it was argued by some that the IMF was not a developmental institution. It was time for those committed to safeguarding the integrity of the Bretton Woods institutions to demonstrate concrete support.

13. Even on the Code of Conduct for Transnational Corporations, the role of multilateral co-operation was often misrepresented. It was true that the objectives of different countries varied, developing countries seeking equity and transnational corporations seeking stability, but multilateral approaches were preferable to bilateral ones because they were more consistent with the interdependent world economy.

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14. In all those areas, there was an urgent need to reactivate international economic co-operation for development. Measures for meeting those concerns could be defined during the intensified discussions on international financial issues scheduled for 1985 and the preparations for the proposed international conference on money and finance for development.

15. The reverse transfer of finance out of developing countries and the resources crisis of the multilateral development institutions posed fundamental issues of development strategy. If developing countries were not to give up their development prospects, they needed increasingly to rely on domestic impulses for growth. Community level activity and private initiatives could constitute a viable strategy, particularly in the agricultural sector. Similarly, decentralized approaches and emphasis on primary services could sustain rapid progress towards major social objectives. The examples of some Asian countries, reported in the 1984 World Economic Survey were of interest in that regard.

16. In his report on the development of the energy resources of developing countries, the Secretary-General stressed the importance of accelerated exploration of indigenous resources in energy-deficient countries in the current economic context. In that regard, the finance mechanisms required provided a good example of the complementary roles played by the public and private sectors. Those issues would be examined in detail at a symposium on the financing of petroleum exploration in developing countries which the Department of International Economic and Social Affairs would organize in 1985, in response to General Assembly resolution 38/151.

17. Referring briefly to the work of the Department of International Economic and Social Affairs on economic co-operation among developing countries (ECDC), he noted with concern that the pattern of net capital outflows from developing countries was potentially detrimental to further ECDC. Thus, ECDC would require an even greater commitment on the part of developing countries, which would have to produce higher domestic savings and make arrangements for intra-trade finance and measures to ensure competitiveness on world markets.

18. In all those ways, the developing countries would need to intensify the effectiveness of their policy reorientation, resource management and collective developmental efforts if they were to maintain progress towards the New International Economic Order and strengthen their economic sovereignty, which was the essence of the Charter of Economic Rights and Duties of States.

19. As might have been expected the results of the review and appraisal of the implementation of the International Development Strategy for the Third United Nations Development Decade had been disappointing. The Committee on the Review and Appraisal of the Strategy had not been able to submit a substantive report because of numerous disagreements about the nature and causes of the crisis in development, and consequently about the remedies to be adopted. Because of certain ideological or procedural obstacles, States had often contented themselves with reaffirming formal positions. The informal consultations that had taken place during the

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summer of 1984 had appeared to indicate some progress towards a consensus on certain general questions. It was therefore regrettable that those consultations had resulted only in the preparation of a report of a procedural nature.

20. The review and appraisal were not for all that devoid of value. They afforded an opportunity for an exchange of information and views among States on fundamental development issues. The early informal consultations had shown a high degree of convergence in the assessments of the different United Nations organizations, including IMF and the World Bank, and had permitted the elaboration of new ideas, the clarification of certain issues and sometimes even a narrowing, however slight, of differences.

21. He hoped that, besides reaffirming the Strategy's goals and objectives, the Second Committee would also consider the necessary arrangements for the mid-term review. A detailed preparatory process should begin at once. To that end, a small but representative intergovernmental expert group could examine the complex issues underlying development performance during the first half of the Decade with the objective of narrowing the differences regarding the obstacles to reactivating the development process. The mid-term review itself, which would occur in early 1986, could be carried out by a committee of universal membership established by the General Assembly.

22. Mrs. MORENO DE EL CUETO (Mexico) recalled that the developing countries had been the hardest hit by the world economic crisis, which Mexico too had not been spared. During the past three years Mexico had in fact, for the first time since the revolution, recorded negative growth rates. Per capita income throughout the region had fallen to its 1977 level, and would recover to the pre-crisis level in 1990 at the earliest. The most favourable forecast of the behaviour of the Mexican economy during the coming decade situated it at its level of five years ago.

23. Mexico had implemented extensive measures to combat the crisis, including an economic recovery programme designed to reduce inflation and exchange rate instability and to protect employment, production capacity and basic consumption as well as to renew growth. Parallel to those short-term measures, it had sought to adjust structures with a view to transforming the production and distribution machinery and ensuring sustained economic development within the framework of a more egalitarian society. However, the renewal was impossible in an unfavourable international climate. Mexico, having fully assumed its responsibilities at the cost of heavy sacrifices, demanded the abolition of the unilateral measures which were accentuating the current imbalances, and the immediate restructuring of international economic relations. The maintenance of imbalanced economic relations which were seriously prejudicial to the developing countries was contrary to the principle of equity. The international community must therefore make exceptional efforts to reduce inequalities, failing which instability and confrontations would only increase. It must also ensure sustained and generalized growth of the world economy and reverse the trends which contributed to the exacerbation of the crisis.

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(Mrs. Moreno de El Cueto, Mexico)

24. The limited growth of world trade was very fragile, and fluctuations and the maintenance of overvalued exchange rates meant that it was essentially confined to the developing countries. It was further jeopardized by the increase in protectionism, which perpetuated inequality in trade. Some developed countries were indeed attempting to resist protectionist pressures, but their action must not lead to the replacement of quotas by voluntary restrictions. All protectionist measures must be eliminated, and the international agreements concluded on the subject must be fully applied.

25. The constant deterioration in the terms of trade, too, contributed to the crisis. In Mexico, for example, the basic commodities (such as coffee, cotton and cocoa) had fallen spectacularly at a time when constant attempts were being made to dismantle the stabilization machinery, whereas the cost of the imports required to maintain or increase manufacturing output had not ceased to rise.

26. Resources for development were decreasing when the cost of outside financing was growing, essentially because of the rise in already high interest rates. An increase of one percentage point in the interest rate added \$2.5 billion to Latin America's debt: the rise of two percentage points in the basic rate which had taken place in 1984 had increased Mexico's debt by \$1.3 billion, thus absorbing the whole of its income from tourism. In 1984, 50 per cent of Mexico's export income would be used to service the debt. The total of foreign investment was lower than the sums Mexico would have to pay in 1984 on interest and capital repayment of the debt alone. Interest rates must fall in real terms. Servicing of the debt must not continue to suffer the repercussions of their fluctuation. It would be conceivable, for example, to employ for debt-servicing purposes interest rates different from those current on the market, linked to the external productivity level of the debtor countries' economies and leaving a margin for purposes of financing of imports essential to development, or to set a ceiling on interest rates or establish a compensatory financing system whereby the effects of such increases could be offset. Mexico did not allow itself to be deluded by the precarious stability or fluctuations of exchange rates, or by infinitesimal reductions in them, since they were increasing clearly enough in real terms. If the rates were not reduced, neither austerity nor debt rescheduling would prevent the global problem constituted by the indebtedness of the developing countries from becoming worse.

27. Together with other Latin American countries, Mexico had attempted to solve that problem at Cartagena and at Mar del Plata. In those countries' view, the approach to the problem of external indebtedness should entail a recognition of the joint responsibility of all the protagonists - Governments of debtor countries, Governments of creditor countries, multilateral financing agencies and the World Bank - as well as of the need to initiate a political dialogue among Governments. To overcome the crisis, initiatives at the national level and measures of international co-operation were essential. In particular, an end must be put to the arms race and the resources thus released allocated to development. Considering that the money spent on armaments every minute would make it possible to eradicate all endemic diseases on earth, the opportunities that a more

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substantial, systematic and constant reduction would offer were readily imaginable, quite apart from the fact that it would contribute to the strengthening of international peace and security. To that end Mexico had launched, jointly with five other countries, a new disarmament initiative at the highest level.

28. The United Nations would shortly be celebrating its fortieth anniversary. It should resume the leading role entrusted to it by the Charter; Member States, for their part, should utilize all its potential in a constructive spirit. They should give consideration to the question whether some General Assembly resolutions should not be strengthened and brought up to date, e.g., those relating to the reform of the international monetary system, the problems of indebtedness of the developing countries, the increase in debt-servicing burdens, acceleration of the transfer of real resources to the developing countries and the financing of development, taking account of the current situation, in order that they might play a valuable part in combating crisis, rather than engaging in totally sterile procedural debates. The General Assembly should resume the political initiative in international economic co-operation. Member States should ask themselves whether they had progressed in the implementation of the principles and the purposes of the Charter. Mexico remained faithful to its commitments and acted in conformity with those principles in its international economic relations. The General Assembly should view international economic problems globally, determine orientations for the specialized machinery of the system, examine critically the events which had taken place in all forums of economic negotiations, with a view to adjusting its sights and promoting conditions more favourable to development. The ideals which had given birth to the Organization remained alive and should inspire Member States.

29. Mr. HILLEL (Israel) said that his delegation fully shared the concern aroused in many countries by the serious world economic situation. In recent years, world economic disequilibrium had intensified the economic problems of the developing countries, on which the international bodies dealing with development had not been able to reach an agreement at their recent meetings. It was true that some developing countries had succeeded in moving from dependence on the exportation of a limited number of basic commodities and, to some degree, diversifying their economies and becoming industrialized. However, the burgeoning price of energy, world inflation and economic recession had impeded the economic progress of others, which were unfortunately, far more numerous. The future of the developing world as well as that of the monetary and financial system was very bleak indeed. It was therefore imperative to make renewed efforts as early as possible in order to resolve those problems, to put the international economy back into motion and to resume development.

30. The development strategy provided a proper framework for the advancement of the developing countries. Unfortunately, the various reports of the implementation of the Strategy indicated insufficient progress in efforts to cope satisfactorily with the immediate problems of development. Consequently, it was essential for Member States to increase their joint endeavours in the desired direction, to draw appropriate conclusions from past experience and to evolve a revised development strategy with the aim of furthering the self-reliance of the developing world. In order to do so, a broad view was required; it was not possible to concentrate on one particular aspect of development, because its elements were all interdependent.

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(Mr. Hillel, Israel)

31. The past 25 years had been marked by great development efforts throughout the world and the major participation of many donor countries in a multitude of projects, at the bilateral or the multilateral level. In spite of all those efforts, funds and food production remain deficient.

32. Agriculture was at the heart of the current problem, since the rural sector had been neglected in most countries; the degradation of non-irrigated land continued, the desertification of semi-arid regions continued, reducing the food production potential. A concerted effort was needed to combat that situation. It was essential to change the orientation of development policies and goals in order to increase world food production drastically and to combat the catastrophes of hunger and malnutrition. In that regard, the needs in that field were the following: to increase the factors of production and to promote measures to limit land degradation; to double-crop on land previously used for non-food crops on an annual basis; to place emphasis on the critical problem presented by post-harvest losses in many regions of the world; to streamline the transfer of technology, with a strong commitment to reaching peasant masses; and to apply a whole set of integrated policies relating, in particular, to the improvement of terms of trade, price systems and crop insurance. In order to meet those needs, irrigated areas might be extended and the current systems of irrigation improved; the yield of traditional crops might be increased by the application of more productive agricultural techniques, particularly in the case of cereals; research and development activities might be developed; and, lastly, integrated rural area development might be undertaken in order to accommodate services and processing facilities in such areas and thus reduce the often exorbitant cost of transport and post-harvest losses.

33. Israel would continue to contribute to international development, with particular emphasis on increasing food production and the development of rural society, and it was ready to join with other Governments, international agencies and non-governmental organizations in that endeavour.

34. Technical discoveries held the promise of meaningful medium- and long-term progress. Research and development could no longer be the sole prerogative of industrialized countries. The argument that high-technology industries were not necessarily appropriate for developing countries did not seem to hold true in the case of several countries, including his own. In fact, science-based industries had, in recent years, been the spearhead of industrialization in Israel and represented a growing proportion of exports. The high performance of the agricultural sector was linked to the dynamism of industry and other sectors of the economy. That link had supported the industrialization process in Israel by improving the foreign exchange position of the country and stimulating food processing and the development of agro-industries. Israel had accorded high priority to scientific research and the development of human resources, which were the key to its economic expansion and the essential characteristic of its technical and economic co-operation with other countries. Many of the solutions adopted in Israel could be applied in other countries, particularly in the developing countries, and Israel was willing to share the fruits of its knowledge and experience in a spirit of international co-operation.

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(Mr. Hillel, Israel)

35. In that regard, it was regrettable to note that ever more numerous attempts were being made to politicize international economic co-operation efforts by introducing world and regional conflicts which were being dealt with by other organs of the United Nations. The developing countries were the main victims of that attitude, which meant that futile exercises were allowed to absorb energy and resources that might more usefully have been devoted to diagnosing the many material problems that beset mankind and seeking and applying equitable solutions. Economic co-operation among developing countries should therefore be fostered, with a view to increasing their solidarity and strengthening their bargaining power vis-à-vis the industrialized world. Over the past decade, trade between developing countries had progressed more rapidly than world trade. ECDC must be guided by the principle of universality, as embodied in the Charter of the United Nations; all developing countries, without exception, should be entitled to participate in and benefit from negotiations in that area. Practical forms of North-South co-operation in operational priority areas of development should be promoted, and the United Nations might play the role of catalyst.

36. He hoped that, in view of the gravity of development problems, the deliberation of the Second Committee would be constructive and would not be tainted by polemics alien to the Committee's sphere of competence. Member States must therefore adopt an attitude of accommodation rather than confrontation.

The meeting rose at 12.10 p.m.