

37th meeting

Tuesday, 13 July 1982, at 10.45 a.m.

President: Mr. Miljan KOMATINA (Yugoslavia)

E/1982/SR.37

AGENDA ITEM 3

General discussion of international economic and social policy, including regional and sectoral developments (continued)

1. Mr. VENKATESWARAN (India) said that the international economic crisis was worsening from day to day and was reacting on all countries, particularly those of the third world. As in the 1930s, with which the Secretary-General of the United Nations had drawn a parallel, the crisis coincided with an escalation in international tension. The arms race continued unabated and absorbed valuable resources that ought to be used for development. The international community could not contemplate the dangerous turn of events with equanimity and, irrespective of their ideology, nations had an obligation to work together to revive the world economy. It was encouraging to see that virtually all were aware of the gravity of the present crisis and determined to overcome it. The Council should assign the highest priority to the question, and the *World Economic Survey 1981-1982*, the report of the Committee for Development Planning and the opening statement by the Secretary-General (30th meeting) would be of great assistance in its deliberations.

2. In his statement, the Secretary-General had drawn the Council's attention to the gravity of the problems besetting the countries of the third world and, in particular, to the way in which their economic and social development efforts were impeded by external factors. The economic crisis had seriously disrupted their balance of payments and had forced them to undertake adjustments which had further slowed down their growth. *Per capita* income in the developing countries showed a real decline for the first time since the late 1950s. According to

the authors of the *World Economic Survey 1981-1982*, the situation was particularly unfavourable for energy-importing countries. Oil-importing developing countries were among those whose current balance of payments was expected to show an overall deficit of about \$100 billion in the years 1982-1983, compared with \$39 billion in 1978. Those countries were finding it more and more difficult to service their debts because of the sharp increase in interest rates. Interest payments were estimated to represent more than 8 per cent of the value of their exports and about 41 per cent of their forecast deficit for 1982. Concessional assistance was fast diminishing and even well-established institutions such as IDA were experiencing serious difficulties. The efforts of developing countries to increase their export earnings were being frustrated by the proliferation of protectionist policies and new forms of non-tariff trade barriers, as well as by a sharp deterioration in their terms of trade.

3. Perhaps more serious still had been the recent attempts to erode the multilateral framework of economic co-operation, the very system through which the existing problems could best be tackled. The trend ran counter to the objectives laid down in the International Development Strategy for the Third United Nations Development Decade and in many other documents and declarations. Bilateral co-operation was certainly useful, but it should not impede multilateral co-operation. It appeared that countries were resorting increasingly to unilateral measures to solve their domestic problems, frequently at the expense of the economies of the developing countries.

4. The countries of the third world were not the only ones to feel the impact of the world economic crisis. The industrialized countries, which were to some extent responsible for it, were also feeling its consequences, such as unemployment, recession and slow-down in growth.

As had already been said, all countries must take part in rectifying the situation. The strategy for such a revival called first and foremost for the rapid economic development and industrialization of the developing countries, since only through such a process could they contribute in their turn to revitalizing the industry and economy of the developed countries.

5. It was in that conviction that India was actively endeavouring to strengthen the bonds of multilateral co-operation. On the initiative of the Prime Minister of India, an informal meeting of some developing countries had been convened at New Delhi in February 1982 to take stock of the situation and explore ways and means of giving fresh impetus to international co-operation. The participants had reached the conclusion that global negotiations should be launched as a matter of urgency, concurrently with measures in areas of critical importance for developing countries, such as those of food, energy, finance and trade. At the Ministerial Meeting of the Co-ordinating Bureau of the Non-Aligned Countries, held at Havana in 1982, the ministers of the non-aligned countries had recommended concurrent action in all those areas. It was heartening to note that the participants at the Versailles summit meeting had not only made progress on the issue of global negotiations but had also indicated their readiness to take specific action in the areas of food, energy, finance and trade. It was to be hoped that the intentions expressed by the international community would lead to action and that the goodwill shown at Versailles, together with the flexibility shown by the Group of 77, would make it possible to launch global negotiations at an early date. The statements made in the Council by the representatives of several industrialized countries were extremely encouraging.

6. There was already a broad consensus on the major problems arising at the present time and on possible solutions. For instance, there was agreement on the need to devise a strategy to increase food production in developing countries. That was a sector in which considerable scope existed for co-operation among developing countries. Governments, competent United Nations agencies, international financial institutions and other interested financial bodies should be able to initiate collective action in that area. FAO might perhaps explore such a possibility.

7. Oil-importing developing countries could be helped to explore and exploit their own energy sources, mainly through regional co-operation agreements. Short-term arrangements to provide additional financial and technical resources were essential. At the Havana meeting he had referred to, the ministers of the non-aligned countries had requested the World Bank to increase substantially the level of its lending in the energy sector, rather than merely to re-allocate its resources, which were in any case limited. The establishment of an energy affiliate attached to the World Bank was of overriding importance at the present time. Participants in the meeting of the Joint Ministerial Committee of the Boards of Governors of the World Bank and IMF, held at Helsinki in May 1982, had made a specific recommendation along those lines to the

Executive Directors of the Bank, and his country would like to know whether the Bank had taken action on it.

8. A considerable increase in official development assistance was urgently needed. Some industrialized countries had reduced the volume of their aid, a course which ran counter to the recommendations of the International Development Strategy. Fortunately, others were granting aid corresponding to a high proportion of their GNP, or were endeavouring to do so, in particular the Soviet Union, whose assistance to developing countries had been 1.3 per cent of GNP in 1980, compared to 0.9 per cent in 1976. Equally welcome was the decision taken by certain donors to release their full contribution to the second instalment of the sixth replenishment of the resources of IDA. That agency, however, was facing a serious deficit which did not augur well for the future, and it was to be hoped that the consensus that had emerged at the Versailles summit meeting on the need to assist IDA would soon produce tangible results. His delegation shared the views expressed by the ministers of the developing countries at the meeting of the Group of 24 held at Helsinki in May 1982 on the subject of the disturbing trends in World Bank and IMF policy and of the steps required to ensure a better response of those agencies to the needs of the developing countries in respect of lending, in such a way as to eliminate the making of distinctions which were no longer appropriate.

9. The sixth session of the United Nations Conference on Trade and Development and the ministerial meeting of GATT to be held in November 1982 were of the greatest importance. The great majority of developing countries were being squeezed by rising energy prices, inflated interest rates, inflation in developed countries and increasing protectionism in those countries. The GATT ministerial meeting might not contribute much to the solution of those problems, but it could surely help to improve discipline—and confidence—in the world trading system. Priority should be given to evolving an consequently objective, effective and “transparent” safeguards system working under multilateral surveillance. The meeting should also guarantee to the developing countries that the rules of GATT, which had so often been infringed by developed countries in recent years, would be respected. It was vital to place emphasis on growth, in order to revive the world economy and that could only be done if the industrialized countries abandoned their restrictive trade practices.

10. It had long been recognized that economic co-operation among developing countries could be of great value in helping them to attain individual and collective self-reliance. The resolution on policy guidelines on the reinforcement of collective self-reliance among developing countries, adopted by the Sixth Conference of Heads of State or Government of Non-Aligned Countries, held at Havana in 1979, was a major landmark. Several meetings and conferences had brought about an evolution in economic and technical co-operation among developing countries. Much remained to be done to ensure the implementation of the various decisions and recom-

mendations adopted by the developing countries and to establish co-operation among those countries on a durable basis. Whenever possible, India had shared its surplus food production with other developing countries, increased its scientific and technological co-operation with such countries and established a preferential investment policy for developing countries with surplus capital. It was also striving to promote the success of such arrangements as the global system of trade preferences among developing countries. India recognized, however, that co-operation among developing countries was not enough and that co-operation must also be promoted between developed and developing countries, one reinforcing the other. Economic co-operation among developing countries could make a significant contribution to world economic recovery and should therefore receive the support of the United Nations agencies. That had not always been the case, because of the opposition of some developed countries.

11. In conclusion, he said that the Council should synthesize the important suggestions made by representatives and devise a strategy for the revival of the world economy. If it succeeded, it would not need any artificial stimuli for its revitalization, for it would have demonstrated its dynamism and made a decisive contribution to the restoration of the health of the world economy.

12. Mr. POPOV (Bulgaria) said that 1981 had been a critical year for international economic relations. The worsening of international tension impeded the work of the United Nations system and particularly that of the Economic and Social Council as the central organ for international economic and social questions. Obviously, if co-operation was to be promoted in the social, technological and economic fields, and between countries with different economic and social systems, it was vital to ensure international peace and security, in particular by adopting firm disarmament measures. The socialist countries were striving to do so; at the twelfth special session of the General Assembly (second special session devoted to disarmament), the Soviet Union had undertaken never to be the first to use nuclear weapons. Bulgaria applauded that initiative.

13. For two years, the capitalist Western countries had been experiencing an economic crisis marked by stagnation, inflation, monetary fluctuations and increased energy prices. In the OECD countries, there had been over 23 million unemployed in 1981 and it was expected that there would be 3 million more in 1982. The efforts made to control inflation had not produced the results expected, mainly because of the increase in military expenditure, which had amounted to \$282 billion.

14. The factors which were producing the crisis in the Western countries had gradually spread to the developing countries, where the slow-down in industrial growth had been more noticeable still and where inflation had also reached unprecedented levels. Those countries had remained economically dependent on their former parent State or on the large monopolies. The increasingly formidable difficulties connected with the search for

markets and the increase in protectionism had been felt by all countries engaged in world trade and had led to serious disruptions in balances of trade and balances of payments.

15. The difficulties encountered by developing countries in the past year were due to a great extent to the activities of the transnational corporations. As had been noted at the Second Congress of Economists of Developing Countries, held at Havana in April 1981, the corporations, controlling as they did 50 to 95 per cent of the world trade in primary commodities and finished goods, were in a position to channel substantial resources away from the developing countries, thus endangering their economic development plans.

16. During the past year, various United Nations organs had considered the question of the restructuring of international economic relations on a democratic and equitable basis. Bulgaria considered that some recent documents, such as the Declaration on the Establishment of a New International Economic Order, the Charter of Economic Rights and Duties of States and the International Development Strategy for the Third United Nations Development Decade, embodied a large number of principles on which the restructuring should be based. Time was passing, however, there were meetings and consultations in succession, and progress was almost non-existent. His delegation endorsed the procedures and agenda proposed by the developing countries for the holding of global negotiations.

17. During the past year, Bulgaria had continued to take part in the efforts directed towards integration and the international division of labour in the context of CMEA.

18. The Western countries had recently been seeking to create further difficulties for the socialist countries. In particular, the United States of America had imposed restrictions on trade with the socialist countries, and the recent Versailles Declaration clearly revealed the capitalist countries' desire to tighten up the conditions in respect of trade and credit granted to the socialist countries. In 1981, the CMEA countries had granted economic and technical assistance to 92 developing countries, in order to help to strengthen their economies, to promote the utilization of their natural resources and to train experts from those countries. They had also been active in multilateral co-operation with the developing countries.

19. The past year had been the first year of Bulgaria's eighth Five-year Plan and it had made a good start. Increased productivity had led to an increase in national income and the implementation of scientific and technological progress had made it possible to reach the targets set by the Plan in the agricultural, industrial and scientific spheres.

20. Bulgaria had expanded its trade relations with the developing countries, but had also developed with them, on an equal footing, economic co-operation, the volume of which was in line with its economic potential and whose forms were adapted to its social system. Such co-operation had produced tangible results in almost all fields, including the building of installations, the transfer

of technology, training, and the collaboration of Bulgarian experts. Bulgaria also paid considerable attention to East-West economic co-operation, between countries with different social and economic systems. In May 1982, it had taken part in a symposium on economic co-operation between East and West, which had been attended by important political figures, representatives of business circles and of international organizations, and the Executive Secretary of ECE.

21. Among the numerous items on the agenda for the Council's current session, Bulgaria attached special importance to the revitalization of the Economic and Social Council, regional co-operation, and operational activities. It hoped that the session would be instrumental in improving the preparations for the thirty-seventh session of the United Nations General Assembly, so that it might be able to adopt constructive and useful resolutions.

22. Mr. DATCU (Romania) said that his country shared the concern expressed in the Council about the worsening of the world economic situation and joined in the appeals which had been made for dialogue, collective action and the strengthening of the United Nations system. There was no denying the fact that the current crisis, the worst the world had known since the end of the Second World War, was of a structural nature. All sectors of the world economic system were in total disarray. Prevailing uncertainty was increasing as a result of restrictive trade and monetary policies, inflation, the financial crisis and the arms race.

23. The developing countries were the ones most affected by the current situation. According to the *World Economic Survey 1981-1982*, there had been a catastrophic fall in *per capita* real income in those countries and the outlook was by no means bright.

24. As a result of the crisis, there had been an increase in unilateral measures and bilateral approaches, and an even more definite tendency to deal with problems in a restricted framework, outside the multilateral machinery offered by the United Nations. The unprecedented rise in interest rates, as well as exchange rate policies, had been making the problems worse. It was therefore obvious that the system could no longer safeguard either the interests of the developing countries or those of the developed countries and that far-reaching changes now had to be made in the structure and machinery of international economic relations on the basis of new, democratic principles.

25. Accordingly, the most urgent task facing the United Nations, and in particular the Council, was that of halting and reversing existing trends. The problems of the world economy could be overcome only by strengthening international co-operation. In every country in which problems existed, solutions must be sought in a spirit of mutual respect and co-operation.

26. In his delegation's opinion, international action should be based on a number of basic principles, the first being the need to establish new relationships in a restructured world economy, in other words, to establish a new international economic order.

27. The second principle was the need for rapid and concerted international action to deal with the most pressing global problems; the more delay there was in seeking solutions, the worse would the global crises, tension and confrontations become and the more difficult it would be to solve the problems. Unfortunately, international economic dialogue was still deadlocked. His delegation therefore joined in the appeal to all States to display the necessary political will and flexibility so that global negotiations based on the proposals of the Group of 77 could start without delay. Such global negotiations should be especially designed to establish an equitable international division of labour and to promote economic activity in the developing countries; they should also cover specific issues, such as energy, the foreign debt of the developing countries, the reform of the international monetary system, access to capital markets and to modern technologies, and the establishment of an equitable ratio between the prices of raw materials, energy, foodstuffs and industrial commodities. Since the worsening of the developing countries' situation was, moreover, largely due to the high interest rates attached to international credits, those interest rates had to be brought down to a level comparable to that prevailing before 1978. Since that question formed part of the new trends and phenomena which the Secretariat had not yet studied in detail, his delegation suggested that the Department of International Economic and Social Affairs should deal with it in a separate section of its next world economic survey. International credit should be a tool for economic co-operation, stability and the economic and social development of all countries.

28. The third principle on which international action should be based was that of the need to create a close link between economic development and the social development and well-being of nations. His country attached particular importance to the theoretical and practical training of national cadres, in particular, of young people, and had taken note with interest of the concern expressed in that connection by the Director-General of the International Labour Office (36th meeting) International Youth Year, which was planned for 1985, would be a good opportunity to make world public opinion aware of the problems now confronting the younger generation and to involve young people more closely in discussions relating to the contemporary world's major problems and in the solutions thereto.

29. The fourth principle was the need to strengthen the effectiveness of the United Nations system and machinery by focusing them more sharply on practical goals. Concerted action by all United Nations organs—which it was the Council's purpose to ensure—would make it possible to break the current deadlock and channel the negotiations in abeyance towards effective agreements, particularly on trade, industrialization, science and technology, food and agriculture and new and renewable sources of energy. In international trade, it was above all necessary to combat protectionist trends, promote structural adjustments to improve the access of developing countries to markets in the developed countries, assure the developing countries of adequate financial

resources and promote the international transfer of technology. His delegation hoped that the sixth session of the United Nations Conference on Trade and Development would lead to effective solutions.

30. Although the major international meetings organized by the United Nations in recent years had made it possible to assess problems and identify areas in which broader international co-operation could be secured, little progress had been made in the implementation of the recommendations and plans of action adopted at those meetings. More intensive efforts must be made to mobilize the financial resources and machinery required to give effect to those plans of action and solve pending problems. It was from that point of view that the revitalization of the Council should be seen, for it should become a kind of workshop for ideas and initiatives and be able to meet more effectively the need for international co-operation in new areas of general interest.

31. His country was of the opinion that the developing countries had been right to request increased financial and technical assistance from the developed countries. It was for that purpose that the funds made available by the reduction of military budgets should be used. Military expenditure merely aggravated the world crisis and was a major obstacle to the elimination of underdevelopment and the establishment of a new international economic order.

32. The problems to be solved were, of course, enormous and the solutions that had been proposed differed widely. Those adopted should, in any event, be based on observance of the principles of equal rights, independence and national sovereignty, non-interference in others' internal affairs and mutual advantage. If the political will to **work together** really did exist, it would be possible to find **acceptable** solutions to the problems that affected all countries. Romania, for its part, was determined to make its own contribution to collective action.

33. Mr. DE LAROSIERE (Managing Director, International Monetary Fund) said that IMF could help industrialized and developing countries alike to adopt mutually compatible adjustment policies that would be conducive to the global adjustment made necessary by the world recession.

34. Referring to the situation of the non-oil-producing developing countries, he pointed out that, for the great majority of developing countries that were net importers of oil, real economic growth in 1981 had been less than 2 per cent, thus falling behind the rate of those countries' population growth for the first time in several decades. On the price front, the combined effect of inflationary pressures throughout the world economy and expansionary financial policies in many developing countries had produced a sharp acceleration of inflation. Those were quite the wrong domestic conditions for a strong recovery of growth; yet it had been in the area of external payments and financing that the deterioration in the position of the non-oil-producing developing countries had been most dramatic in the past few years. The combined current-account deficit of those countries had reached \$100 billion

in 1981, an increase of \$60 billion over the 1978 level, and the bulk of that increase could be accounted for by the surge in oil prices and the rise in interest rates on world capital markets. However, despite very limited market growth in the industrialized countries during that period, the volume of the exports of the oil-importing developing countries had risen by almost 18 per cent between 1979 and 1981, reflecting their success in developing new markets. During the same period, the volume of imports of the oil-importing developing countries had risen by little more than 11 per cent and had actually fallen in the case of the low-income sub-group of countries. Despite the adjustment efforts that had been made, the deficits of many developing countries were still much too high to be sustained in terms of their debt-service capacity. In 1982, half the oil-importing developing countries were expected to have a current-account deficit in excess of 40 per cent of their export earnings.

35. The obvious conclusion was that the developing countries as a whole must adopt strong economic adjustment policies, even if their problems were largely due to external shocks and influences beyond their control. The facts showed that, all too often, policies, and in particular financial policies, had been unduly lax, thus compounding the problems arising externally. For example, half the non-oil-producing developing countries had had budget deficits of 6 per cent or more of GDP in 1981, about double the level of the average deficit in the mid-1970s. The Fund was only too well aware of what happened when a country failed to adopt the necessary corrective measures in time: inflation undermined the competitiveness of the economy and weakened the export sector; external debt built up and confidence was lost; the authorities were then tempted to clamp down on imports, impose controls on capital outflows and control prices. Over time, however, the erosion of incentives for producers, savers and investors and the fact that real interest rates were negative and profit margins narrow would hardly promote growth and development. That was a highly unfavourable situation, since it disrupted the international financial system. What was needed to avoid it was the timely adoption of policies designed to promote more rational adjustment, particularly by diverting resources from consumption to investment and exports.

36. With a view to sound demand management, most developing countries needed to set themselves the task of reducing their budget deficits and ensuring more moderate rates of monetary expansion. In many cases, they also had to try to improve economic efficiency and strengthen their productive base. The main elements in that process would be the setting of exchange rates and prices in such a way as to ensure adequate incentives for exporters and producers; the adjustment of interest rate policies with the aim of mobilizing domestic savings and allocating scarce investment funds efficiently; the liberalization of exchange and trade policies so as to minimize economic distortions and stimulate competition; and the limitation of the growth of incomes, particularly in the public sector. Such policies had proved to be highly

successful in restoring external balance in a number of developing countries.

37. While the developing countries themselves would bear the brunt of the required adjustment, the policies of the industrialized countries were of vital importance for bringing about a general recovery. Fundamentally, the best contribution those countries could make would be to put an end to stagflation in their own economies and set the world economy on a new course towards sustainable growth. Three aspects of the economic policy of the industrialized countries were of particular importance.

38. Firstly, a number of industrialized countries must strike a better balance between monetary and fiscal policy in their efforts to control inflation. Most of those countries had already shifted towards monetary restraint, but all too often their budget deficits had remained excessive and their financing had been pre-empting an excessive share of available financial resources, thus driving up interest rates and crowding out productive investment. In that regard, the present situation in the United States of America had particularly important implications for other countries. Moreover, in 1981, the rate of interest in the Euro-capital markets had averaged more than 16.5 per cent, nearly 8 percentage points above its 1978 level; yet, for every 1 per cent increase in world interest rates, some \$2 billion was added to the developing countries' debt-service costs. If the major industrialized countries reduced their budget deficits, they would be in a position to maintain their policies of monetary restraint, while allowing interest rates to decline to more reasonable levels.

39. Secondly, the industrialized countries must follow liberal and open trading policies. With continuing recession and rising unemployment, protectionist pressures and trade friction had been increasing. Protectionism in all its forms must be resisted, because it bred inefficiency, invited retaliation and retarded the structural changes upon which economic growth and high employment ultimately depended. Moreover, the industrialized countries stood to benefit by exploiting the enormous further potential for expanded trade with the developing world.

40. Finally, those countries must increase their development assistance. In recent years, the official development assistance provided by the industrialized countries had averaged less than half the 0.7 per cent of GNP target set more than 10 years earlier. In present conditions, an increase in concessional aid was more than ever a necessity, particularly for the poorest countries.

41. In view of the gravity of the economic problems facing the majority of developing countries, IMF had a crucial role to play, not as a provider of development finance—for that was outside the scope of its functions—but as a monetary institution helping to promote economic adjustment in its member countries and throughout the world. In that endeavour, two aspects of the Fund's work, namely, surveillance and balance-of-payments financing, were particularly important.

42. Surveillance by the Fund of the exchange-rate policies of its member countries was one of its main

functions. In the troubled state of the world economy today, the Fund's efforts to achieve a closer convergence in the policies of its member countries, and in particular those of the larger industrialized countries, were of special importance. The Fund would therefore continue to urge the major industrialized countries to ensure a better mix of their fiscal and monetary policies. It took encouragement from the fact that, at the recent summit meeting held at Versailles, the leaders of the seven major industrialized countries had committed their full support to the Fund's efforts to promote greater stability in the world monetary system. They had also undertaken a commitment to strengthen their co-operation with the Fund in its surveillance work and to do so on a multilateral basis. It now lay with those countries to translate their commitments into action.

43. Since the balance-of-payments deficits of the member countries of the Fund had reached unprecedented levels after 1979, the Fund's lending capacity had had to be strengthened by increasing its financial resources, mainly by borrowing, and by enlarging access to those resources by member countries. Those steps had enabled the Fund to increase its loans to member countries substantially but it had yet to establish its capital resources on a base which would enable it to confront the uncertainties of the 1980s; that was precisely the purpose of the discussions which were already under way for the eighth general review of quotas and should be completed by the end of 1983.

44. The bulk of the Fund's lending in recent years had taken the form of commitments in support of adjustment programmes. Since the beginning of 1980, almost four fifths of Fund commitments—some SDR 20 billion—had been extended to 43 member countries in the form of arrangements involving high conditionality. That was a central feature of Fund loans, its purpose being to ensure that the Fund's financial assistance was used to support economic policies designed to produce a viable balance-of-payments position within a reasonable time. The policy instruments used were designed in the light of the institutional setting and organization of the country concerned and in accordance with its economic and social priorities, which the Fund made it a rule to respect. The perception by some that the Fund's conditionality had been tightened did not derive from any change in the Fund's policies; rather, it reflected the need for more stringent national policies to correct larger deficits.

45. The Fund had extended its terms and could now lend for up to 10 years within the framework of extended arrangements. The structural difficulties that the developing countries faced could not, however, be solved by an uncontrolled expansion of the Fund's lending facilities. To maintain the integrity of conditionality was essential if the Fund was to act as a spearhead for the efforts of countries to adopt realistic adjustment policies and thus improve their economic performance and gain access to other external sources of capital. In order to help member countries to solve the structural problems they faced, the Fund had been placing emphasis not only on demand management but also on measures to strengthen the

economies concerned. Although it had not moved into the field of development policies, it had been seeking to ensure that its programmes were in keeping with sound investment and production strategies and thus with the longer-term structural adjustments needed in many member countries. To that end, the Fund would continue to co-operate closely with the World Bank.

46. The adjustments which he had described would be tolerable only if they were implemented in a climate of world solidarity. It was therefore vital for the international organizations represented in the Council to be strengthened. Negotiations were already in progress for an increase in the Fund's quotas. The success of those negotiations and the agreement to which they would lead would be a decisive element and, at the same time, a test of the will for international co-operation, which the world now needed more than ever.

47. Mr. VAN WELL (Federal Republic of Germany) said that he fully endorsed the statement made by the representative of Denmark on behalf of the 10 member States of the European Economic Community (31st meeting). He shared the view that it was urgently necessary to close the gap between the poverty of many developing countries and the relative well-being of many industrialized countries. Because of the increasing interdependence of the countries of the North and the South, the dialogue had to be carried on more intensively than it had been up to the present. For that purpose, it was necessary not only to continue and to intensify the current negotiating processes but also to start global negotiations as soon as possible.

48. His Government attached high priority to global negotiations. As the General Assembly had emphasized in its resolution 34/138, global negotiations were aimed at ensuring steady economic development; thus, global economic growth and the success of the North-South dialogue could not be considered separately. It was well known that the results of the dialogue were vital for both the developed and the developing countries. In the North-South dialogue, the consideration of the points of view, possibilities and limits of each constituted the first step towards the solution of many problems. The developing countries would perhaps conclude that their efforts to develop and modernize their economies required a more comprehensive conceptual framework, while the industrialized countries, for their part, would perhaps recognize that in order truly to incorporate the developing countries in the world economy, they themselves should adopt a policy of positive adjustment. The North-South dialogue should not be conceived of as a one-way street. Progress depended on the willingness of everyone to agree on a common denominator, in the interest of all. For that purpose, it was necessary to avoid group confrontation and to put an end to ideological intransigence and to any "crusade" mentality.

49. The dominant topic at the Versailles summit meeting had been the state of the world economy. The participating Governments had agreed that a further reduction in inflation, higher levels of employment and a return to steady growth should remain the main

objectives of their individual and joint efforts. His Government considered that growth and employment would be attained on a durable basis only if the fight against inflation was successful. That had not been the case during the 1970s and at the beginning of the 1980s, which explained the accumulation of structural problems, the slowing down of economic growth and the increase in unemployment.

50. In all oil-importing countries, the first oil shock had led to additional burdens on their balance of payments and budgets and increased costs and expenditures for energy by businesses and households. The rapid changes in oil prices had encouraged inflationary tendencies and had made it more difficult to adjust to the new situation. That first increase in the price of oil had affected the industrialized countries more or less severely; for example, Japan and the Federal Republic of Germany had been better equipped to absorb its negative effects. Subsequently, those two countries had come under considerable pressure to act as "locomotives" to pull other countries out of stagnation and inflation by a more expansive policy of the Keynesian type. They had reluctantly yielded to that pressure, but today it was obvious that that had not been the best approach, either for the countries in question or for the world economy, because it had led to the solving of many structural and adjustment problems being postponed.

51. In 1979/80, the world economy had suffered a second oil shock. Under the effects of that shock, many countries had found themselves in an even worse economic and social condition than after the first crisis and it had been seen that Keynesian solutions were unsuitable. In his opening statement, the Secretary-General of the United Nations had stressed the difficulty of reviving expansion without triggering inflation. His position on that crucial question seemed to be parallel with that of the Federal Republic of Germany.

52. Almost all countries were confronted with the same dilemma: the need to fight inflation and unemployment at the same time. In order to overcome that dilemma, it would first be necessary to carry out structural adjustments. The most important thing at the present time, therefore, was to mobilize both public and private investment. An inflationary budget policy would worsen the recession and unemployment and put a brake on investment activity. On the other hand, the expansion of public demand would at best provide only a temporary relief. The remedies necessary to relieve highly developed economies were not so simple or so quick and mistakes which had been made over many years could not be corrected in a few weeks or months. He would draw attention to a few points which, in his opinion, were important.

53. First of all, all efforts to overcome the present difficulties must start at home. Consequently, they should be adapted to the specific situation of each country. It was impossible, however, to ignore the effects which the national policies of each country might have on the rest of the world, for there was hardly any country today which could act in isolation. For that reason, it was necessary to

avoid protectionism, devaluation races, monetary restrictions and interference with the flow of private capital. In other words, there should be no blocking of established trade and financial patterns, for the success of each country's efforts to cope with its economic problems would ultimately depend on the smooth functioning of international trade and financial transactions.

54. Because of the size of the economy of the United States of America, the policy of that country's Government and the macro-economic development of the United States were strongly affecting other countries. It was therefore to be hoped that that Government's determined struggle against inflation would prove successful. There were some positive signs, such as the slowing down of price increase rates, which should help to bring down interest rates. The reduction of interest rates was also one of the objectives which had been set by the heads of State at the Versailles summit meeting. Moreover, aware of the fact that world trade expansion was both a necessary element for growth and a consequence of that growth, they had reaffirmed their commitment to strengthening the multilateral trading system as embodied in GATT. In the present difficult situation of the world economy, it was extremely important that all countries should resist protectionist pressures and trade-distorting practices. It was necessary to complete what had been begun at Tokyo and improve the capacity of GATT to solve present and future trade problems. The industrialized countries should also open their markets more widely to exports from developing countries. His Government would participate fully in the forthcoming GATT ministerial meeting and hoped that it would result in concrete measures.

55. The provisional agenda for the sixth session of the United Nations Conference on Trade and Development had been adopted. Although it was regrettable that the decision had not been taken by consensus, it was nevertheless a first step towards preparing that important Conference, which would constitute a vital phase in the North-South dialogue.

56. His country's trade with the developing countries had become more important during the 1970s and the early 1980s. In 1981, almost one fifth of the Federal Republic's imports had come from third-world countries and more than one sixth of its exports had gone to those countries. Imports by the Federal Republic of Germany from non-oil-producing developing countries had increased during the past year and during the first half of the current year, despite the stagnation of his country's economy, and it was obvious that the chance of seeing those imports increase would depend on how soon his country could return to a normal overall growth rate.

57. Whatever happened, there must be no trade war, whether in East-West or North-South relations or in the triangular relationship between Japan, the United States of America and the European Economic Community. Above all, the developed countries had to demonstrate that the liberal trade system served the interests of all. They had to take the lead in developing the free exchange of goods and services.

58. Furthermore, IMF as the central monetary policy institution must not be weakened. Only a strong IMF could help all the countries in need to overcome their short-term balance-of-payments problems. Development assistance must remain a function of the World Bank group and of the regional development banks. Everything should be avoided which might reduce the attractiveness of those institutions and the flow of funds to them. His country was prepared to continue its multilateral co-operation, which had increased in recent years. It would also endeavour, in collaboration with the World Bank group and of the regional development banks. Everything should be avoided which might reduce the attractiveness of those institutions and the flow of funds to them. His country was prepared to continue its multilateral co-operation, which had increased in recent years. It would also endeavour, in collaboration with the World Bank group, to find solutions which would enable those multilateral financial institutions to perform their task.

59. As the participants in the Versailles summit meeting had emphasized, the world economy needed greater stability for its foreign exchange and financial markets. It was therefore to be hoped that the arrangements agreed upon at Versailles would result in less erratic fluctuations of exchange rates and in greater security on the Euro-markets. Those decisions, of course, must not lead to market regulation running counter to the established European monetary system, which fulfilled an important regional function.

60. There was no doubt that the present world economic difficulties were also affecting international commodity markets and prices. The instability of export earnings was placing a heavy burden on the economies of many commodity-producing developing countries. His country was therefore prepared to support efforts to stabilize the earnings of exports from developing countries through a scheme specifically devised for that purpose.

61. Development aid remained indispensable and should be further increased. The revival of the world economy and the resumption of growth depended on the participation of all countries. Development was important for all countries, whether developed or developing. An increase in official development assistance therefore also benefited the donor countries. In many cases, such assistance stimulated contributions of private capital. It should be noted that the participation of the Soviet Union and CMEA in that respect was quite insufficient. The statement made by the representative of the Soviet Union at the 35th meeting had revealed a completely biased view of the real problems of the world economy; consequently, the recommendations which he had made for their solution seemed quite irrelevant. All the figures denied the pretentious claim of the Soviet delegation that there was a natural alliance between the communist States and the developing countries.

62. In 1981, the Federal Republic of Germany had been able to increase its official development assistance by 11.1 per cent. Private capital flows, however, had already begun to decline; they had decreased by DM 2.2 billion in 1981. That figure did not include transfers made by

private organizations. Taken together, private and public transfers to developing countries had amounted to DM 18.3 billion in 1981. That sum represented 1.18 per cent of GNP, a level well above the 1 per cent target recommended by the United Nations. A stagnant or shrinking world economy could not produce the resources which it was hoped to transfer; it was therefore in the interests of all countries, both developing and developed, to overcome the present recession.

63. In the preceding year, his delegation had emphasized the importance of sound policies in the areas of food, energy, money and finance. In the matter of food, his Government was furnishing aid in Latin America, for example, and, together with its partners in the European Economic Community, was helping to assist the food-deficit countries in Africa to shape and implement food strategies.

64. He wished to emphasize the importance which his Government attached to the implementation of the Nairobi Programme of Action for the Development and Utilization of New and Renewable Sources of Energy. It welcomed the fact that the Interim Committee on New and Renewable Sources of Energy, which had recently met at Rome, had paved the way for a realistic and concrete approach to bilateral and multilateral co-operation with the developing countries in the field of new and renewable sources of energy.

65. One of the most difficult problems facing the third world was that of the population explosion. The world population would increase from 4.5 billion inhabitants in 1980 to approximately 6.8 billion by the year 2000, and 90 per cent of that increase would occur in the third world. The effects of that population growth on the third world would be manifold; food problems, balance-of-payments deficits and unemployment would all increase. During the past 25 years, the working population of the developing countries had doubled and by the year 2000 it would be impossible to find employment for everybody. Moreover, the capital expenditure needed for establishing an adequate social infrastructure would become increasingly heavy.

66. Among the reasons for the population growth in developing countries, special mention should be made of the substantial surpluses of births over deaths, a fact that was attributable to social, cultural and economic factors. For example, large families were still considered to be a form of social security. It was therefore necessary first of all to make a lasting improvement in the living conditions of the individual, so that he could be protected against sickness and old age and become less dependent financially on his children. Education could also play an

important part in creating conditions for social development in which the number of children would no longer be of great economic importance for the individual family. In that context, it was extremely important to improve the social and economic situation of women and to enable them, through education, to practise contraception.

67. According to some demographic experts, there was a relationship between the intensity of the contacts which countries of the third world might have with more advanced societies and the reduction of the birth rate. It was therefore essential, in order to speed up the so-called demographic transition period, that such contacts should be encouraged and, in particular, that communication networks of all kinds should be expanded and used to change the cultural signals affecting parents in developing countries.

68. Another important aspect of any structural policy designed to deal with the critical development of the world economy was investment in what was called human capital. At the present time, about 25 per cent of the population of the developing countries was of school age. In the years to come, therefore, those countries would be compelled to invest heavily in education, and later on an increasing proportion of their investments would have to be devoted to creating productive employment. In the area of investment in human capital, however, private initiative was not normally sufficient. It was necessary, therefore, that Governments should undertake the investment, and that was what the Governments of most developing countries wanted to do. Unfortunately, they could seldom count on adequate public revenue to finance that kind of investment. Moreover, it was difficult for them to borrow in international markets to finance such investment, since it would only yield a return in 15 to 20 years' time. The international community should therefore become aware of that problem and launch a major effort to concentrate more official development assistance on investment in human capital. He sincerely hoped that the International Conference on Population to be held in 1984 would take up those issues.

69. In his opening statement before the Council, the Secretary-General had outlined a comprehensive recovery programme for the world economy, based on the recommendations of the Committee for Development Planning. His Government would make a careful study of those recommendations. Every idea and every action likely to contribute to the rapid recovery of the world economy would have its full support.

The meeting rose at 1.10 p.m.