

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

MASTER FILES
ROOM C-525

0401

SM/89/235

November 13, 1989

To: Members of the Executive Board
From: The Secretary
Subject: UNCTAD - Trade and Development Board

There is attached for the information of the Executive Directors a report by the Fund observers on the first part of the thirty-sixth session of the Trade and Development Board of UNCTAD, held in Geneva from October 2 to 13, 1989.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

UNCTAD--Trade and Development Board

First Part of the Thirty-Sixth Session

Prepared by the Fund Observers 1/

November 10, 1989

I. Introduction and Summary

The Trade and Development Board (TDB) held the first part of its thirty-sixth session in Geneva during October 2-13, 1989, under the chairmanship of Mr. Oscar de Rojas of Venezuela. The session had two major items on its agenda: the interdependence of problems of trade, development finance and the international monetary system; and the debt and development problems of developing countries. 2/ 3/ Debate on these issues was conducted jointly and resulted in the adoption of consensus resolutions on both items. The Board also adopted a decision on UNCTAD's contribution to the preparations for the International Development Strategy for the Fourth United Nations Development Decade, agreed that the eighth session of UNCTAD will be held at an as yet unspecified Latin American location in mid-1991, and adopted a declaration commemorating the twenty-fifth anniversary of UNCTAD that sets out a number of priority areas for the future work of the organization.

II. Interdependence of problems of trade, development finance and the international monetary system and the debt and development problems of the developing countries

The Trade and Development Report, 1989 (TDR), prepared by the UNCTAD Secretariat, with an overview of the report presented by the Secretary General provided the background documentation for the principal agenda items. 4/

1/ Mrs. H.B. Junz and Mr. Robert Sheehy.

2/ Annotated provisional agenda (TD/B/1212 and Add.1 and Add.2).

3/ The UNCTAD Secretariat had prepared a number of reports for the consideration of the Board. These included the following: Trade and Development Report, 1989 (UNCTAD/TDR/9); Possible areas of focus for the interdependence debate (TD/B/L.864); and Contribution of UNCTAD to the preparation of the new International Development Strategy (TD/B/B(XXXV)/CRP.9/Add.1 Rev.1.

4/ UNCTAD/TDR/9.

The TDR, from which the Overview was drawn, first reviews the current state of the world economy and second focuses on the impact of adjustment programs in the least developed countries (LLDCs). After a factual discussion of international financial developments and the short-term outlook, the first section of the TDR concludes that persistent low growth in some developing countries cannot be traced to problems of growth potential or the quality of policies. The report contends rather that these countries are caught in a vicious circle of low growth, weak investment, and macroeconomic disorder that can be broken only by massive, up-front relaxation of the external resource constraint, mainly through debt and debt service reduction. It argues further that it is the difficulty of the external situation itself that causes deviations from a sustained adjustment path in many countries. In fact, policies aimed at correcting external imbalances will actually tend to be counterproductive in the absence of prior provision of additional financial resources and significant debt reduction.

The TDR goes on to argue that trade liberalization, including in particular import liberalization, has little effect in promoting better export performance in developing countries. In this context it notes that many countries that introduced significant policy reforms continued to record sluggish export growth rates. This lack of responsiveness is attributed to the absence of the conditions required for rapid industrial development (e.g. adequate skill levels, the existence of necessary economic and social infrastructure, and the presence of political and policy instability). The report also argues that, because adjustment policies generally involve also real exchange rate depreciation, there is a danger that trade policy reform may lead to inflation and in some cases may contribute to macroeconomic disorder.

The second section of the TDR presents case studies of structural adjustment programs in seven least developed countries (Bangladesh, Lesotho, Malawi, Nepal, Niger, Sudan and Tanzania). The report notes the difficulty of analyzing the experience of countries pursuing adjustment programs in the absence of knowledge of what might have occurred otherwise, and also recognizes that the implementation of adjustment policies is relatively recent in most of the countries under review. Nevertheless it draws a number of conclusions regarding the design and impact of structural adjustment programs in those least developed countries. These conclusions are summarized in the Secretary-General's Overview as follows:

- In addition to the fact that the initial changes of policy cause some unavoidable distress to vulnerable groups, the adjustment programmes have so far produced mixed results and achieved, at most, limited success;
- Adjustment in LDCs has too often focused on demand-restraint measures, which have led already poor economies to operate at even lower levels of output;

- Devaluation, which is a common feature of the stabilization and adjustment programmes, appears to have had little effect in stimulating exports;
- The strong emphasis given by adjustment programmes to redirecting resources from public bodies to private entrepreneurs is also called into question. The programmes need to take into account that LDCs generally have a very poorly developed entrepreneurial class and depend on public institutions to sustain development;
- Social services have suffered under adjustment, largely on account of cuts in development budgets, and inadequate maintenance and operational budgets;
- Additional financial resources directed to LDCs appear not to have been sufficient to support their adjustment efforts. Moreover, the share of grants in aid disbursements has declined, and conditions attached to aid have become stringent;
- Adjustment programmes have not taken the problems of external debt sufficiently into account in their design;
- The specific characteristics and problems of individual LDCs have not always been adequately taken into account in the design of these programmes;
- The adjustment programmes have also failed to make provision for the flexibility to adapt - as the vulnerable LDCs must inevitably do - to unforeseen factors, be they internal, regional or global in origin, which are beyond LDC's control;
- Finally, excessive emphasis on securing short-term payments correction has led to policy approaches that do not focus sufficiently on promoting long-run development. The sort of changes that are required call for additional resources, a longer timeframe and careful sequencing of policy implementation. 1/

The introductory statement of the Secretary-General to the TDB reviewed the principal conclusions of the TDR, emphasizing that, in heavily indebted countries, external shocks and adjustment to these shocks had generated macroeconomic disorder to a degree that frustrated the efficiency of normal policy prescriptions, rendered these economies unresponsive to growth impulses and precluded a successful assault on disorder. He also called attention to the conclusions that he had

1/ TDR, page XV.

drawn on key issues of concern related to interdependence following an informal meeting of eminent personalities. 1/ In commenting on these issues, he noted in particular the need to take into account the diversity of national objectives, the specific problems and experiences of individual countries and their capacity to respond to change. He concluded his remarks on these agenda items by indicating that the management of interdependence was difficult and complex. Nevertheless, the achievement of accelerated and sustained development of the poorer countries, he argued, was essential if the social and political turmoil that he believed was inherent in a continuation of current trends, was to be avoided.

The general debate on the two principal agenda items, though including a broad range of views, revealed a consensus on the need for market-oriented policy reform that differed significantly from the conclusions drawn in the TDR. The initial statement by the spokesman for the Group of 77 emphasized the seriousness of the problems facing the developing countries, noted that the classical solutions to these problems were not working, and emphasized the need for structural adjustment in all spheres throughout the international community. The spokesman for Group B (developed market economy countries) noted the emerging international consensus on the importance of market forces and commented that the increasing diversity in economic performance within the group of developing countries was indicative of the need for different policies to address different situations. He called for deeper analysis of the policy choices underlying successful performance and indicated that it would be useful if the TDR could address this issue in the future. The spokesman for Group D (socialist countries of eastern Europe) noted the growing interdependence of countries and economic issues, as well as the need to manage this interdependence and to make international economic relations more predictable and stable.

In the debate following the initial presentations, statements by a large number of delegations from both developing and industrialized countries emphasized that good policy programs are essential to mobilizing external financing, that policy reform is necessary whether or not external support is forthcoming, and that countries themselves are responsible for ensuring that policy reforms are designed appropriately to fit their specific circumstances. The importance of developing countries' own policy efforts was underscored in many statements, including those by the EC, Japan, and the Nordic countries, to which statements by Austria, Canada, Finland, Hungary, Poland, and the United States added that policy reforms must be market-oriented and based on efficiency criteria. The importance of trade liberalization as a primary policy instrument for achievement of these objectives was emphasized by the EC spokesman and Turkey. While emphasizing that policy reforms

1/ Circulated as document TD/B/L.864.

spokesman and delegates from a number of countries, Ghana, Poland, and Japan, argued strongly that the provision of adequate amounts of external financing was essential to ensure that the policy reforms would be fully successful.

The difficulty of undertaking and sustaining policy reform programs and of achieving higher rates of economic growth in the absence of large amounts of external financing (including debt and debt service reduction) was a principal focus of statements by Argentina, Brazil, India, Yugoslavia and others. In their view, sustained domestic policy reform required a supportive external environment, including renewed flows of new external lending and a reduction in protectionism in industrialized countries. The need for reform was not questioned, however, although it was noted by India that in the absence of supportive policy reforms in the industrialized countries, certain domestic changes (e.g. trade policy reforms) could be counterproductive.

The statement by the representative of the World Bank emphasized the critical importance of an orderly and expanding global economy to the overall development efforts, and noted that the external environment for development is shaped to a large extent by the policies of the industrialized countries. At the same time, experience supported the view that adjustment efforts by developing countries could yield positive results even in an unfavorable external environment, while a favorable external environment would not foster sustained growth in the absence of appropriate domestic policies.

The statement by the representative of the Fund emphasized that in an increasingly interdependent world, economic dislocations anywhere could only be resolved through the efforts of all. The experience of developing countries in recent years showed that it was a mistake to attempt to spend one's way out of resource allocation problems, that there was no alternative to policies aimed at elimination of internal imbalances, and that adjustment programs needed to include an appropriate balance of macroeconomic policies and structural reform. In addition, experience showed that adjustment programs could bear fruit fully only if they were accompanied by adequate support from the international community. This meant that sufficient external resources should be available, especially in the initial stages of adjustment, that countries should have access to overseas markets, and that there needed to be continued, but better balanced, growth in the industrial countries.

The debate, and accompanying informal discussion, resulted in the adoption of consensus resolutions on the two principal items of the agenda. The resolution on interdependence, 1/ which was the first such resolution adopted by the Board, notes the disparities in growth and

1/ TD/B/L.880, attached.

development among countries, in particular between developed and most developing countries, and the continuing stagnation of the economies of the majority of developing countries, and indicates concern about the implications of these disparities for world growth and stability. The resolution pledges a reinvigorated effort to strengthen multilateral cooperation to promote and give effect to policies aimed at revitalizing development, growth and international trade and recommends that governments design and implement effective national and international policies and adopt measures with a view to promoting balanced and more evenly spread economic growth and development for the benefit of all countries.

The resolution on debt and development problems of developing countries, 1/ which was the subject of prolonged debate, calls for both policy reform on the part of debtor countries and action by industrial countries to facilitate the negotiation of financing packages and to provide a favorable international environment for adjustment efforts. It welcomes the recent decisions by the Fund and Bank on the use of their resources to support voluntary debt and debt-service reduction, as well as decisions by other creditors aimed at strengthening efforts to deal with the problem of indebtedness, and calls for a quick and successful outcome of the ongoing negotiations on an IMF quota increase, an early agreement on a substantial replenishment of IDA, and a timely and successful outcome of the Uruguay Round of Multilateral Trade Negotiations.

III. Other issues

Besides the principal agenda items, the topic generating most discussion was the declaration commemorating the twenty-fifth anniversary of UNCTAD, 2/ as it outlines priority areas for the future work of the organization. The declaration provides that UNCTAD should continue to play a role in multilateral efforts to broaden access to opportunities to generate wealth and income for all countries through its analysis, new ideas, initiation, dialogue, negotiation, decisions and technical cooperation. It further states that there is a need to strengthen the impact of UNCTAD's work on national and international policy making, and indicates that the major challenge facing UNCTAD is to bring fresh thinking to the solution of long-standing problems and to new areas of concern, with a view to promoting innovative policy measures. UNCTAD should continue to pay special attention to economic problems common to developing countries and should make substantive contributions to multilateral cooperation in promoting economic efficiency within broader national and international development objectives.

1/ TD/B/L.886, attached.

2/ TD/B/L.887, attached.

The Board also adopted a decision concerning UNCTAD's contribution to the preparation for the International Development Strategy for the Fourth United Nations Development Decade. 1/ The decision takes note of the report by the UNCTAD secretariat on this issue, 2/ and provides for further consultations on possible subsequent action by UNCTAD at a later stage.

The Board adopted a work program that provides that the second part of the thirty-sixth session of the TDB will take place in Geneva during March 12-23, 1990. The main agenda items of interest to the Fund are: (a) protectionism and structural adjustment; (b) the implications of bilateral arrangements and regional economic integration for trade and development of developing countries; and (c) trade relations among countries with differing economic and social systems. The work program also provides that the eighth session of the United Nations Conference on Trade and Development (UNCTAD VIII) will be held at an appropriate period during May-July 1991. Neither the location of the session nor its agenda have yet been determined.

Finally, the Board approved a calendar of meetings for the remainder of 1989 and for 1990.

1/ TD/B/L.884.

2/ TD/B(XXXV)/CRP.9/Add.1/Rev.1.



United Nations Conference
on Trade and Development

Distr.
LIMITED

TD/B/L.880
10 October 1989

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Thirty-sixth session
First part
Geneva, 2 October 1989
Agenda item 3

INTERDEPENDENCE OF PROBLEMS OF TRADE, DEVELOPMENT FINANCE
AND THE INTERNATIONAL MONETARY SYSTEM

Draft resolution submitted by Jamaica on behalf of
the States members of the Group of 77

The Trade and Development Board,

Recalling General Assembly resolution 1995(XIX) of 30 December 1964,
ECOSOC resolutions 1989/110 and 1989/111, Final Act of UNCTAD VII and its
decision 350(XXXIV),

Reiterating the centrality and continuing importance of the debate on
Interdependence of problems of Trade, Development Finance and International
Monetary System,

Appreciating efforts of the Secretary-General to strengthen the debate
on Interdependence and the comprehensive analysis in the Trade and Development
Report 1989, and the role of UNCTAD as an instrument of international dialogue
and cooperation on economic and development matters,

Concerned that disparities in growth and development between developed
and developing countries despite growing interdependence have considerably
increased and would further undermine the global economy and stability,

Concerned that the economies of the majority of developing countries, particularly the least developed countries, continue to be in a state of stagnation and regression leading to further decline in economic growth and development and increase of widespread poverty, threatening an irreversible breakdown of the international economic system,

Convinced that external economic environment conducive to sustained growth and development of developing countries is crucial for the success of ongoing domestic policy reforms,

1. Reiterates the pledge to a reinvigorated effort to strengthen multilateral co-operation to promote and give effect to policies aimed at revitalizing development, growth and international trade, and to enhance the effectiveness of UNCTAD as an important instrument of international economic co-operation;

2. Recognizes the acute need for appropriate management of interdependence of problems of trade, development finance and the international monetary system in a comprehensive and broad-based manner to ensure mutual benefit for all, especially developing countries. In this context recommends that:

(a) Governments evolve effective national and international policies and adopt measures with a view to promoting balanced and symmetrical economic growth and development for the benefit of all countries;

(b) Governments engage in a comprehensive, sustained and productive dialogue towards that end.



United Nations Conference
on Trade and Development

Distr.
LIMITED

TD/B/L.886
13 October 1989

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Thirty-sixth session
First part
Geneva, 2 October 1989
Agenda item 4

DEBT AND DEVELOPMENT PROBLEMS OF DEVELOPING COUNTRIES

Draft resolution submitted by the President

The Trade and Development Board,

Recalling the Final Act of UNCTAD VII and General Assembly resolutions 41/202, 42/198 and 43/198,

Having reviewed, against this background, the ongoing international co-operative effort to deal with the debt problem and related issues of growth and development,

Concerned that a large number of developing countries experiencing debt difficulties, with serious social consequences, have recorded unsatisfactory rates of growth of output and development for many years, and that overall prospects for these countries are for a continuing unsatisfactory performance in 1989,

Welcoming the recent improvements and strengthening of the efforts to deal with the problem of indebtedness, including:

(a) The more favourable practices of the Paris Club in rescheduling the debt owed to official creditors by certain low-income developing countries;

(b) Recent decisions by the Boards of the IMF and IBRD on operational guidelines for the use of their resources in support of voluntary debt and debt-service reduction in debt owed to private creditors;

(c) The announcement by Japan that it would make available additional resources in support of these efforts;

(d) The efforts made by a number of other developed creditor countries including the recent decisions by some of them to forgive the official development assistance debt of some developing countries,

Concerned that outflows of resources from some heavily indebted, notably middle-income, developing countries have not been offset by the inflows necessary to finance their development effort,

Bearing in mind the Substantial New Programme of Action for the 1980s for the Least Developed Countries and the United Nations Programme of Action for African Economic Recovery and Development 1986-1990,

1. Agrees that the highest priority needs to be given to making rapid and effective use of the improved and strengthened debt strategy, in conjunction with appropriate economic policies and an improved international environment that, while arriving at durable, equitable and mutually-agreed solutions to the problem of indebtedness in each of the countries concerned, will facilitate the achievement of durable and broad-based growth and development. This will require, inter alia:

(a) The negotiation of financing packages adequate to support growth-oriented adjustment programmes, including, as appropriate, debt reduction, debt-service reduction, new lending and other techniques, so that the financial obligations and payment capacity of individual debtor countries are made more compatible; the combination of these elements should lead to a resumption of vigorous growth and development and satisfaction of the needs of the populations;

(b) The formulation and implementation by debtor countries of appropriate programmes of growth and development-oriented macroeconomic stabilization and structural adjustment and reform, which will necessarily be tailored to the specific needs and circumstances of the individual country, including the need to protect vulnerable groups and overcome economic disorders;

(c) Review by creditor Governments of tax, regulatory and accounting practices in order to remove unnecessary obstacles with respect to new lending to developing countries and debt reduction and debt-service reduction, to ensure that a supportive policy environment is achieved and maintained;

(d) Intensified efforts by industrial countries to pay special attention to the need for an increase in the exports of heavily indebted countries, undertake structural adjustment measures, maintain the vigour of their expansion while reducing and/or containing inflation, and work toward a mix of fiscal and monetary policies that would allow interest rates to come down, and hence enduce a more favourable international economic climate;

(e) That all of the above elements are brought together in a way that bolsters confidence in the economic and financial prospects of individual debtor countries and in the strategy itself so as to create a climate favourable for an increase in investment flows;

(f) That all those involved take into account, as appropriate, the above in working towards a growth-oriented solution of the problems of external indebtedness of all middle-income countries with serious debt-servicing problems, including, inter alia, those whose debt is mainly to official creditors or multilateral institutions;

2. Underscores the importance of the ongoing discussions with a view that the international monetary and financial institutions be endowed with all the resources required to meet the needs of all their members, and in this connection, calls for a quick and successful outcome of the ongoing negotiations in the IMF and for early agreement on a substantial replenishment of IDA; in this same spirit, calls for a timely and successful outcome of the Uruguay Round of Multilateral Trade Negotiations.

3. Urges all developed donor countries that have not done so to take the necessary steps to implement fully and immediately section A of Board resolution 165 (S-IX) regarding adjustment of the terms on past ODA debt and further urges creditor countries, especially developed creditor countries, to implement fully the measures with respect to Paris Club debts called for in Trade and Development Board resolution 358 (XXXV).

4. Reiterates that, in implementing all the above, particular attention needs to be given to the special problems of the least developed countries and African countries.



United Nations Conference
on Trade and Development

Distr.
LIMITED

TD/B/L.887
13 October 1989

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Thirty-sixth session
First part
Geneva, 2 October 1989
Agenda item 5

TWENTY-FIFTH ANNIVERSARY OF UNCTAD

Draft Declaration submitted by the President

The Trade and Development Board,

Recalling General Assembly resolution 43/183 of 20 December 1988 and Board resolution 365 (XXXV) of 14 March 1989 on the twenty-fifth anniversary of the United Nations Conference on Trade and Development,

Acknowledging with appreciation the statements made and messages delivered on the occasion of the twenty-fifth anniversary of UNCTAD, as well as the activities organized by the UNCTAD secretariat to mark that occasion,

Adopts the following declaration:

1. Positive conditions exist for strengthening international economic co-operation, including co-operation for development. The international political climate is propitious. Steady growth in global output and trade offers opportunities for progress in developing countries. Nonetheless, substantial obstacles remain. Participation in the benefits of economic expansion and technological advance is unequal. Extreme inequalities of income distribution persist, poverty is widespread, vast human potential is wasted and ecological systems are threatened. Economic stagnation and retrogression prevail in a large number of developing countries. The problems of the least developed countries and those of African developing countries are particularly acute.

2. There is therefore no cause for complacency, but a basis and an urgent need exist for concerted national and multilateral action to attack the obstacles to a healthy, secure and equitable world economy. These obstacles will not be overcome by spontaneous economic forces alone. At both national and international levels, access to opportunities for the generation of wealth and income should be broadened, within a framework of rules and co-operative arrangements, based on consensus. All countries are responsible for contributing to the required action in accordance with their capacities and economic weights. UNCTAD can play a prominent role in this effort through analysis, new ideas, initiatives, dialogue, negotiation, decisions and technical co-operation.

3. From its roots in the mandate established by General Assembly resolution 1995 (XIX), the role of UNCTAD has evolved under the guidance of successive sessions of the Conference. The consensus embodied in the Final Act of UNCTAD VII continues to provide a valid framework for formulating specific policy measures. UNCTAD has responded to changing conditions, needs and orientations, while maintaining its universal character and its development mission. Important policy advances and agreements have been achieved through intergovernmental negotiation in UNCTAD and by the influence of its work on the thinking and decisions of governments and other international forums. There is a need to strengthen further the impact of UNCTAD's work on national and international policy making. To this end, member States should further encourage institutional linkages and bring specific national perspectives and interests more directly to bear in debates and negotiations, in order to forge durable multilateral solutions.

4. The main substantive challenge facing UNCTAD is to bring fresh thinking to bear on long-standing problems and new areas of concern, with a view to promoting innovative policy measures. It should do so taking full account of the interdependence of economies and of policy areas, of long-term structural changes in the world economy, as well as of the need for a more supportive and predictable international economic environment for trade and development, particularly of developing countries. It should also explore the policy implications of the diversity of the growth and development experiences of different countries, as well as of integration processes having a major impact

on the world economy. UNCTAD should continue to pay special attention to economic problems faced in common by developing countries, notably in expanding and diversifying their production base and their trade in goods and services including their mutual trade, reducing commodity dependence, building financial, technological and transport capacities, coping with the debt burden and its consequences, adverse trends in resource flows, and undertaking adjustment programmes oriented to growth and development.

5. The future of the world economy and of international economic co-operation will be increasingly shaped by the exploration of different ways of integrating the pursuit of economic efficiency with broader national and international development objectives. While there is no universal criterion for determining the proper mix of economic management tools for stimulating economic growth and development, and a range of approaches and measures appropriate to particular situations are being applied, it is noted that more countries in all parts of the world are making use of market signals and competitiveness in promoting entrepreneurial initiative and in optimizing the contributions of the public and private sectors. A related factor will be the promotion of approaches to growth which would encourage sustainable development, responding to the needs of present and future generations of humanity. The eradication of poverty should have a central place in these endeavours. UNCTAD should make substantive contributions to multilateral co-operation in these areas, within its mandate. Moreover, the economic impact and opportunities of disarmament should command increasing international attention.

6. Committed to the objectives of UNCTAD, member States pledge themselves, individually and collectively, to rise to these challenges, to enhance their political support for UNCTAD and to make it a more effective and responsive instrument of international co-operation for trade, growth and development, particularly of developing countries.

