
1. Introduction

The Seventh Special Session and beyond

1. The months since the middle of 1975, when we wrote our Interim Report, have brought positive progress in the development of an organised dialogue on the implementation of a new international economic order. The Seventh Special Session of the United Nations General Assembly identified the common ground that existed between the developed and developing countries, and outlined some directions for further discussion of unresolved issues. We consider that all parties recognise the importance of building upon the conclusions of the Seventh Special Session, by coming to early agreement on specific programmes of action for the benefit of the developing countries. We see UNCTAD IV as offering an invaluable and timely forum for coming to decisions on the important elements of a new programme of international co-operation.
2. Full account should also be taken of the work going on in the Conference on International Economic Co-operation, which has begun meeting in Paris. We consider that discussions among groups of countries could contribute to the building of a global consensus. Accordingly, we would hope that discussions in Paris and in other forums would be mutually reinforcing in the direction of getting quick agreement on major issues. The important thing is that everyone must be demonstrably working within a common framework of objectives, priorities and timetables. One would thereby avoid what has often been the unsatisfactory outcome of past efforts, where a proliferation of forums brought confusion, delay, the diversion of energy and the postponement of effective action. It is also important that no interest be left unrepresented in the global dialogue – whether developed or developing country, market or centrally planned economy. The issues at stake are universal in scope, and require for their solution the full involvement of all countries in the international community.
3. **The gravity of the problem**
In our previous Report we stressed the urgent need for early

action, suggesting that the international community should make conscious efforts to shorten conventional timetables for implementing programmes of international co-operation. Since then, the information which has become available on the grave position of the non-oil developing countries underscores the need for immediate action. In this connection, the most pressing problem is that of the balance of payments, and the constraints this imposes on real development and the planning for such development, including the creation of employment in developing countries.

4. The developed countries have managed because of the resilience of their economies and the efficacy of their adjustment mechanisms substantially to overcome the recycling problem, and to go a considerable way towards reactivating their underlying potential for real growth and the creation of jobs. This has been materially assisted by the previously underestimated import capacity of the OPEC countries for goods and services produced by the developed world, and by economies in the use of oil. The burden of the balance of payments adjustment required by the international economic crisis has fallen upon the non-oil developing countries, who are ill-equipped to bear it.
5. The IMF's analysis of the situation indicates that the non-oil developing countries experienced a current account deficit of some \$35 billion in 1975; and the most hopeful forecasts are that in 1976 and 1977 the deficit is unlikely to fall below \$30 billion in each year. There has therefore been a radical shift from the position where the non-oil developing countries were usually incurring approximately a \$9 billion deficit, which was accommodated within existing international institutional arrangements, even though inadequate growth and development were being generated in the large majority of developing countries. The present outlook for a \$30 billion-plus deficit must be considered against the background that the full implications of this for the development prospects and the standard of living of many developing countries are only now beginning to be seen, and that institutional developments for providing the resources needed to fill this gap on appropriate terms, have not yet been fully examined, let alone set in place. So far, less than \$6 billion is likely to become available through institutions towards the required \$30 billion, which indicates the gap that remains to be filled by ODA and other support schemes.
6. Over the past two years the non-oil developing countries have

been able to rely, and have had to rely, predominantly upon short-term market borrowing, largely through Eurobanking channels, and devices such as suppliers' credits. In 1975, the net expansion of credit from private banks to them approached \$14 billion – a sum well in excess of the traditional annual deficit. This pattern of financing is naturally giving rise to an escalation in debt servicing payments. It does not therefore represent a durable solution, but one which merely creates difficulties for the future, and makes the development problems of the non-oil developing countries that much more intractable. Moreover, the revival of demand from developed economies for loanable funds, as they recover from recession, will tend to reduce the finance available to the developing countries.

7. There is no room for complacency. If the expected deficit cannot be financed, the developing countries will be forced to do without imports of goods and services vital not simply for their development but for the maintenance of even their present inadequate standard of living. The forecast deficit is itself posited on an inadequate rate of growth. A more desirable rate of growth would result in a much larger deficit. A smaller deficit could mean stagnation and in some cases perhaps even starvation.

Areas for corrective action

8. It seems to us that several things could be done quickly to redress the situation. First, a further look could be taken at the adequacy and suitability of the balance of payments support facilities available from the International Monetary Fund. Data for 1975 show that despite the difficult situation in which they were placed during that year, only a tiny handful of developing countries took advantage of Fund facilities beyond the first tranche. Moreover, it is clear that the improvements agreed upon by the Fifth Meeting of the Interim Committee of the Fund would have only a marginal effect on the present situation. In general, the results achieved in Kingston fell far short of expectations in providing additional financial resources for the developing countries, whether by way of compensatory financing, gold sales, or the creation of a link between SDRs and development finance.

Financial measures

9. In any event, the creation of financial facilities is one thing, their utilisation another. An examination of the role being played by the International Monetary Fund will show that over the years it has extended its activities and diversified

the facilities which can be availed of by members facing balance of payments difficulties. In particular, in the last two or three years the Fund has shown adaptability to changing circumstances. But the fact is that developing countries have been making little use of the Fund's facilities, even when many of them have had to face severe strains on their payments position. The terms and conditions under which member countries can borrow from the Fund under the various facilities and the fact that all borrowings are related to the quota holding of the member and not dependent on urgency or extent of need are largely responsible for this. We would, therefore, recommend that an immediate review be undertaken by the Fund in consultation with its members to assess the factors which have stood in the way of greater utilisation of Fund facilities by developing countries and to suggest specific amendments including discriminatory treatment in favour of least developed and most seriously affected (MSA) countries, which would make the Fund a more effective agency in meeting the emergent needs of developing countries.

10. It is of course understood that the balance of payments support facilities at present available are intended merely to provide a breathing space for countries to tackle disequilibria which might be structural in nature. Since the balance of payments problems of developing countries tend to be of this character, we see improved access to existing Fund facilities as only part of a larger package of measures for dealing with the basic problem. We therefore envisage a wider role for the Fund in, for example, extended compensatory financing, which we deal with later in this report.

11. The second component of the package should be an increase in ODA. International development requires of the developed countries only a marginal allocation of their resources to the developing countries in the form of ODA. The Interim Report estimated that the provision of net ODA to the amount of 1 per cent of GNP by 1980 would require an increased ODA contribution of only some 5 per cent of the amount by which they may reasonably be expected to grow richer between 1975 and 1980. It is a matter of considerable concern that over recent years, however, ODA as a percentage of GNP has declined. The developed countries would be demonstrating the commitment to international development which they reaffirmed at the Seventh Special Session, if they implemented the ODA target of 0.7 per cent of GNP immediately. We urge them to recognise that the amounts devoted to aid, even at higher levels, do not significantly affect their domestic prob-

lems, and that they should insulate their aid-giving efforts from the requirements of domestic economic management.

12. Beyond this, we urge that the international community take action on the following specific matters:
- (i) A large and immediate replenishment of the IDA;
 - (ii) Improving the borrowing capacity of the World Bank, and increasing the resources available to the regional development banks, so that at the very least they could all continue their present levels of lending in real terms;
 - (iii) The exploration of new arrangements, including mobilisation of the efforts of the centrally-planned economies, to supplement the contributions being made by existing international institutions towards the growing financial requirements of the developing countries.

13. A third area where immediate action can be envisaged is Debt Relief. We believe this subject to be of such importance that we are devoting a separate section of this Report to it, since it represents one of the areas where very quick assistance can be given to the developing countries. In this introduction, we wish merely to draw attention to the fact that the present debt problem is alarming both in its proportions and in its implications. If immediate action is not taken to deal with this problem it could well lead to the progressive breakdown of the private capital market, at least as far as many developing countries are concerned. Our hope is that longer term measures for strengthening the viability of the economies of the developing countries would provide the ultimate solution to the problem. However, in the short term, special measures are needed for providing relief especially to the most seriously affected and the least developed.

Non-financial measures

14. Fourthly, financial measures must be complemented by trade measures designed to safeguard and increase the export receipts of the developing countries. Commodity arrangements and access to markets are of the highest importance. Sufficient preparatory work has now been done by UNCTAD and other international agencies, as well as by governments, to permit of agreement on a comprehensive action programme. We dealt with the subject of commodity policy in our Interim Report, but we consider it of sufficient importance to warrant our further attention on this occasion.

15. Finally, no package of immediate measures would be complete without components directly designed to accelerate longer-run development and structural transformation in the developing countries. Only these latter processes can yield lasting solutions to the underlying problems which create the balance of payments difficulties now being experienced. We did not highlight the fundamental problem of unemployment in our Interim Report. But in the circumstances facing the developing countries, the level of employment represents a more meaningful indicator of development and structural change than the level of GNP per capita. To that extent, employment-oriented strategies, programmes and projects constitute a vital part of the thrust towards greater development in the Third World.
16. We see therefore an important part for policies aimed at deepening development in the key productive sectors, and at increasing their employment creating capacities. Thus, we gave considerable attention to food production in our Interim Report, and re-affirm our support for the programmes of action then proposed. On this occasion, we intend to address ourselves to the manufacturing sector, and in particular to policies and programmes for industrial co-operation. We do not, however, see food and agricultural development, on the one hand, and industrialisation, on the other, as separate, let alone antagonistic, forms of development. They must be pursued with parallel priority so as mutually to reinforce each other.
17. As we observed in our Interim Report, the solution of the problem of development rests largely upon the developing countries, who must make intensified efforts at self-reliance involving the effective use of local endowments and opportunities. However, if these efforts are to be effective and productive, the international economic environment must not confront them with insuperable obstacles. A new international economic order should provide the appropriate external economic environment, so that maximum scope can be given to exercising the initiative and resourcefulness which the developing countries clearly have, and which will generate true development of a kind to which the world as a whole is now committed.