

# COMMISSION OF THE EUROPEAN COMMUNITIES

SEC (89) 1086 final

Brussels, 7 July 1989

## UN 1990 : INTERNATIONAL ECONOMIC COOPERATION

First Commission progress report to the Council on preparations for the  
UN Special Session in April 1990

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REVIEW OF MAIN LINES OF ACTION

The special session of the United Nations in April 1990 will focus on the role of international economic cooperation in boosting growth and development. The Community's view of the direction cooperation should take is set out below.

A. THE SCOPE OF INTERNATIONAL ECONOMIC COOPERATION

1. One effect of the emergence of global markets is to promote world economic growth and spread it more widely, thus reinforcing countries' interdependence and strengthening intersectoral linkages. Consequently international cooperation is needed to remove obstacles to market efficiency, encourage mutually consistent national policies, and avoid conflicting trade, financial and monetary policies. The goal of cooperation, therefore, is to promote the spread of growth-led development.
2. Developing countries have widely differing growth rates, raising questions not only about their domestic policies but also about the international economic environment.
3. In the Community's view, international economic cooperation should address these questions. In addition, it should take account of constraints on development, such as population growth and over-indebtedness, as well as the opportunities provided by, for example, east/west détente and technological progress.
4. Safeguarding the environment is another priority; the oil crises of the seventies gave us our first glimpse of the radical changes that are now needed in our production methods and consumption patterns. Both the industrialized and the developing countries are going to have to discipline themselves accordingly, working as partners in the management of their common heritage.

## B. DOMESTIC DEVELOPMENT STRATEGIES

1. Although domestic development strategies will vary from country to country, they should all be geared to increasing food self-sufficiency, diversifying production structures, and opening up the economy to the outside.

2. A balance will need to be kept between the free market and the public sector to ensure the efficient allocation of resources, the production of collective goods, and the implementation of the economic and social policies essential for development. At the same time, the best possible use must be made of human resources.

3. Development cannot be said to be genuine unless it can be shown that the lot of the worst-off has improved through a fairer distribution of resources, and that everyone's human rights are respected. Sustained development needs to be backed by the sort of political consensus which democratic institutions supply so well.

4. Development cannot be said to be sustainable unless the environment is respected and natural resources properly managed.

## C. THE INTERNATIONAL ECONOMIC ENVIRONMENT: GROWTH AND COHESION

1. Non-inflationary growth is the real motor behind development. To consolidate growth, the industrialized world needs to pursue healthy macroeconomic policies and ongoing structural adjustment, thereby removing the imbalances which contribute to high real interest rates and fickle exchange rates. Developing countries will find that an open, stable international environment is more conducive to trade and external financing, provided, that is, they unlock their doors to foreign investment and international trade.

2. However, the greatest incentive for developing countries to open themselves up and start exporting is having guaranteed effective access to markets. Although the industrialized countries constitute the largest

markets, there is a lot of potential in South-South trade, especially if regional trading systems are liberalized.

The Uruguay Round provides a suitable framework for the industrialized countries and the more advanced developing nations to negotiate trade liberalization and the strengthening of the multilateral trade system.

3. The industrialized countries have a duty to show solidarity with the developing world, and especially with the very poorest countries; official development assistance needs to be strengthened and made more effective.

Fluctuating commodity prices and the costs of diversification mean that specific action is called for. There is a need for new forms of industrial and technical cooperation to bring economic operators from the public and private sectors together.

**UN 1990**  
**INTERNATIONAL ECONOMIC COOPERATION**

**I. INTRODUCTION**

1. In April 1990, the UNGA will devote a special session to the revitalisation of economic growth and development, particularly of the developing countries. This session will focus on strengthening international economic cooperation in order to meet the challenges posed by the growing diversification of economic performance among developing countries and to exploit the opportunities opened up by the improvement in international political relations.

2. The European Community has played a decisive role in establishing a common understanding between most industrial countries and the G 77. It can be satisfied with the agreed purpose, focus and preparations of the Special Session. Having been such a major interlocutor, expectations are that the EC will continue to play its constructive role. On both political and economic grounds, the EC should accept this role and prepare for it accordingly.

3. It is the European Community's view that international economic cooperation, in an increasingly interdependent world, must go beyond issues of ODA, external resources for development and developing countries' market access. The globalisation of markets and the world economy improves economic efficiency and stimulates growth. It also calls, in parallel, for concerted and mutually beneficial management of growing interdependence. Accordingly, international economic cooperation must promote further opening up and liberalisation and ensure coherence between individual countries' economic policies, on the one hand, and between monetary, financial and trade matters - the main channels of economic interdependence - on the other.

4. This first report, to be followed by another in January, is structured as follows. Section II presents a broad, differentiated evaluation of past economic growth and development in developing countries. In the light of this assessment, Section III sets out the broad aims of future international economic cooperation. Section IV addresses the major trends that act as constraints on, or provide new opportunities for, developing country growth and development. Section V attempts to provide operational orientations for international economic cooperation.

## II. SALIENT FEATURES OF PAST ECONOMIC GROWTH AND DEVELOPMENT IN DEVELOPING COUNTRIES

5. Over recent decades, substantial progress has been achieved in improving standards of life, human welfare and strengthening democratic systems and institutions in developing countries, taken as a whole. But, for large masses of people in a number of developing regions, living conditions continue to be unacceptable, economically, socially and politically.

6. At the global level, positive trends are to be found:-

- (i) Real average annual GDP growth averaged close to 5.5% during the period 1965-86;
- (ii) Real average annual per capita GNP growth amounted to 3% for the group as a whole and for the same period;
- (iii) Major health and nutritional achievements; education and the development of human resources have also recorded substantial progress;
- (iv) The structure of developing country production has been diversified.

Also in the political area, democracy has made real progress in many areas of the world and increasing attention is being paid to the protection of human rights.

7. These global trends are, however, misleading. They conceal major differences between developing countries, as well as between different socio-economic categories of their populations:-

- (i) Real average annual GDP growth amounted to only 3.5% in Sub-Saharan Africa and large parts of Latin America during the period 1965-86. During the 1980's, it was less than 1% and 1.5% per annum respectively;
- (ii) Real average annual per capita GNP has been practically stagnant since 1965 in Sub-Saharan Africa and a number of Latin American and Asian countries; earlier gains being wiped out by a dismal economic performance during the 1980's;
- (iii) In these same countries, pervasive poverty continues to exist. Malnutrition, poor housing, inadequate access to basic health and education facilities, insecure and badly paid jobs, the absence of effective political rights, continue to be the

conditions of life of very large proportions of people in many low as well as middle income countries.

It should be added that such conditions still prevail for certain categories of people in more successful developing countries of Asia, for example, and that industrial economies are still confronted with exclusion of some social groups from the benefits of growth.

Weak growth and development performance in a large number of developing countries has been associated, to varying degrees, with several factors including,

On the LDC's side:-

- (i) economic policies that have not been sufficiently conducive to productivity, efficiency in resource allocation, domestic resource mobilisation and outward orientation of their economy;
- (ii) a continuing high degree of dependence on primary commodities. For many developing countries, primary commodity exports still account for up to 80% of export earnings, sometimes even more;
- (iii) insufficient emphasis on human resource development;
- (iv) inadequate incorporation of competitive and efficient technology into domestic production;
- (v) internal and regional political tensions and instability; and;
- (vi) rapid population growth and environmental degradation;

On the Industrial Countries' side, despite generally supportive growth:-

- (i) an increase in protectionist tensions and threats of unilateral measures;
- (ii) very high real interest rates;
- (iii) excessive exchange rate volatility and resulting misalignments;
- (iv) insufficient aid, which is stagnant as a proportion of GDP.

### III. BROAD AIMS OF FUTURE INTERNATIONAL ECONOMIC COOPERATION

9. International economic cooperation for development must contribute to the lasting improvement of material conditions of daily life, especially of the weaker and poorer. It must also contribute to a wide participation in economic activity, by both men and women: this will enable them to share directly in economic growth and development and will contribute to sustaining such growth and its equitable distribution.

Putting Man at the centre of economic development, both as actor and as the ultimate objective has political implications as well. Economic freedom and confidence in a country's economic future call for social and political consensus and stability, security as well as and political rights and freedoms. Democratic institutions have proved to be most effective in providing individual economic operators, domestic and foreign, with the security and stable environment they need to invest and to initiate economic change.

10. More specifically, international economic cooperation should pursue the following, related aims:-

- firstly, the consolidation of a high and steady and sustainable rate of growth of the world economy, while paying due regard to the need for environmental protection;
- secondly, accelerated economic growth in the developing regions or countries trailing behind, including in Africa, Asia and Latin America; and;
- thirdly, economic growth with development. Economic growth must be paralleled by the eradication of poverty, equity in economic and education opportunities, and in sharing material well-being, and widespread participation in economic activity and political decision-making.

### IV. CONSTRAINTS TO, AND OPPORTUNITIES FOR, FUTURE DEVELOPMENT

11. In pursuing these aims, international economic cooperation must pay particular attention to trends that have an adverse impact on the development prospects of developing countries. The more important ones are:-

- (i) the long-term, downward trend in real commodity prices, combined with their short-term instability. Developing countries heavily dependent on primary

commodity production and exports find it difficult, if not impossible, under these circumstances to create the confidence necessary to mobilise resources and stimulate growth and development;

- (ii) the rapid increase in developing country population, which has major implications for job creation, social and physical infrastructure, international migration and natural resources;
- (iii) debt servicing problems and debt overhang create a vicious circle of economic retrogression in many, highly indebted developing countries. Their present growth and development performance, and future potential, are severely affected.
- (iv) environmental deterioration which is becoming a threat to the future of all mankind. The responsibility for the future protection of the environment rests mainly with industrial countries, but developing countries are also concerned. For the sake of future generations economic growth can no longer be pursued irrespective of its environmental cost;

12. Nonetheless, opportunities do exist for accelerating the process of economic growth and development, particularly in developing countries;

- (i) reduced East-West political tensions and military spending release economic resources critical to a more balanced and improved economic performance in major economies of the world;
- (ii) far-reaching economic structural and political reforms in centrally planned economies should improve their economic performance and their ability to open up their economies; and
- (iii) technology available on international markets and through cooperation enables developing countries to rapidly raise domestic productivity and competitiveness.

## V. MAIN OPERATIONAL ORIENTATIONS FOR INTERNATIONAL ECONOMIC COOPERATION

13. The increasing differentiation between developing countries' economic performance, on the one hand, and their being part of a increasingly global world economy, on the other, raise two different issues. One pertains to the economic policies and development strategies of the individual developing countries; the other relates to the international economic environment and how it affects developing countries.

In pursuing the aims of steady economic growth and sustainable development, international economic cooperation must address both these issues, taking into account constraints and opportunities.

### A. Developing countries' growth and development strategies

14. These strategies must, first and foremost, encourage the efficient exploitation of all their economic resources - human, natural and physical - on a sustainable basis. Domestic food deficits.

continued high dependence on a few primary commodities, the depletion of natural resources, a low level of efficiency and productivity, are all indications of the need for strengthening, or reformulating, these strategies in many developing countries.

It belongs to each individual developing country to define, in the light of their culture and history, the model of economic organisation and development which will be most effective in combining the respective roles and capabilities of the marketplace and public authority.

15. Well functioning domestic and international markets generate flexibility and efficiency in resource allocation and mobilisation of human and other economic resources. Moreover, in an increasingly open world economy, access to foreign technology and savings can support developing countries' efforts towards wider mobilisation and exploitation of their domestic resources and growth potential. It is essential that the opportunities and characteristics of markets be exploited to the fullest possible extent in order to diversify the production and export structures of developing countries, diminishing the dependence on primary commodities. Competitive diversification is needed to support a steady growth pattern that rests both on rising domestic demand and successful integration in worldwide specialisation patterns and trade.

16. Market liberalisation and outward orientation of developing country economies are necessary to obtain steady growth and development. This process can and should be accelerated in a number of more advanced developing countries of Asia and Latin America, in particular. The speed at which other developing countries can liberalise domestic markets and raise the degree of outward orientation will reflect their differentiated capacity to deal with the economic and social consequences of more market-led growth. In order to accelerate and sustain this process of economic reform, the public authority of these developing countries faces the specific task of creating a stable and predictable policy environment for domestic and foreign economic operators and of maintaining a widely-shared social and political consensus. This consensus can be achieved via steady economic and social progress, including through a sufficient degree of equity, satisfaction of basic human needs and accessible and affordable social services. The reform efforts of these developing countries must also be supported by the international community, in order to ensure their sustained character and accelerate the integration of developing countries in the world economy.

17. In parallel, developing countries should promote regional integration efforts as a step towards greater integration in the world economy and increasingly participate in multilateral trade negotiations where they are able to negotiate secure and effective access to foreign markets as a complement to their own progressive, but irreversible, external liberalisation.

The assurance of secure and effective market access to industrial, as well as developing, country markets constitutes, in the final analysis, a powerful lever towards open, modern and diversified economies integrated in the world economy and sharing in its wellbeing.

#### B. The International Economic Environment

18. International economic cooperation must contribute to a vigorous and open international economy. It must also be robust: the stability and predictability of major economic variables (interest rates, exchange rates, macroeconomic policies...), sectoral policies, trade regimes, are indispensable to creating and maintaining confidence.

19. Industrialised countries, in particular, must continue to improve the functioning of markets and the efficiency of their public sectors for sustaining recent strong growth rates and further reduce unemployment. They must press forward on a broad front with reform to enhance the

efficiency, flexibility and dynamism of their economies, including in international trade, agriculture, competition and industrial subsidy policy, international direct investment, financial markets and their public sectors.

Cooperation and surveillance among industrial countries must also be further developed. Together, the major industrial countries should deal in a consistent manner with the risks attached to the world economy and due, in particular, to the resurgence of inflation, high real interest rates, too low savings and unsustainable external imbalances. They should also deal in a concerted manner with international monetary issues, including the pursuit of an orderly, growth-oriented, international adjustment process. This is crucial to maintaining appropriate and stable exchange rate relationships, and to keeping domestic markets open to international trade and investment.

20. The Uruguay Round of multilateral trade negotiations offers a unique opportunity for an irreversible, balanced liberalisation of world trade and for a strengthening of the GATT system and rules.

The UR could provide, thereby, a formidable impulse to economic operators' confidence and their preparedness to take on the costly and long-term task of industrial restructuring and modernisation, of developing countries in particular.

To these ends, industrial countries must persevere with their internal economic reform efforts and continue their moves towards regional integration, e.g. the Single Market objective of the European Community, which provide an additional impulse to growth and trade liberalisation. They must also encourage and facilitate more effective participation of developing countries in trade negotiations and mutually beneficial trade liberalisation processes, by addressing those issues that are of vital interest to developing countries.

21. Finally, industrial countries must actively explore the means of providing more direct support to developing countries' reform, diversification and liberalisation efforts, the financial requirements of which are substantial and extended over time. This calls for:-

- (i) facilitating investment overseas, and industrial and technological cooperation with developing countries by their nationals;
- (ii) increasing ODA, which currently stands at only 0.35% of GNP for the group of OECD countries, to meet the agreed ODA target of 0.7% of GNP;

The quality and coordination of aid should also continue to be emphasised, as well as its flexible adaptation to the changing needs of the poorer developing countries and with a view to achieving sustainable development;

- (iii) the resources and types of operations of the international financial organisations, **IMF and World Bank**, should be kept under continual review, so that they can most effectively play their crucial catalytic role in helping developing countries mobilise both domestic and foreign resources for growth, investment and development.

This role is especially important at a time when confidence in many developing countries' economic, and political prospects, are low.

### C. International cooperation on specific, important issues

22. Growth and development are not sustainable when the environment is allowed to deteriorate and natural resources to be depleted. Environmental deterioration (ozone layer, the "greenhouse" effect, destruction of tropical forests) is now becoming a threat to the future of all mankind. Both industrial and developing countries must take into account explicitly the environmental impact of all their economic activities and policies. Industrial countries need to adapt current production and consumption patterns; developing countries need to choose growth and development strategies that incorporate the environmental dimension and implications.

International cooperation must, through dialogue and negotiation, lead to common efforts and a high degree of solidarity in finding and implementing common solutions.

Therefore, it seems appropriate to promote an active dialogue in a multilateral framework - drawing, in particular, the recommendations of the Brundtland Report - for the adoption of an international strategy and the adaptation of the existing bilateral cooperation instruments in order to effectively tackle this threat to the future of all mankind. The European Community should play an active role at all levels - multilateral, regional and bilateral - and, in particular, launch a diversified interregional strategy in favour of environmentally sound development with its major partner countries and regions in the Third World.

23. Prospects for primary commodities are very worrying. Yet, a large number of developing countries are crucially dependent on these. The international community must cooperate more effectively to address both the problem of

short term price instability - including commodity agreements and commodity study groups - and the need for transforming and improving commodity production structures, research into their alternative uses, and horizontal/vertical diversification. All these mechanisms require additional financial resources and appropriate policies; the Community is ready to play its role.

24. The burden of external debt has become crushing in a large number of developing countries and acts as a major deterrent for resource mobilisation and new investment as long as its servicing entails so sizeable a net transfer of resources abroad. Reversing these net transfers becomes a priority for international cooperation. It must rest on sound policies in, and encouraging long-term economic prospects for, highly indebted developing countries and be achieved through new credits and other financial flows, as well as debt, and debt service, reduction. Industrial countries, in particular, have an important, if not determining role to play in encouraging such a reduction. They paved the way for it at the Toronto Economic Summit in June 1988 for some highly indebted developing countries and should urgently facilitate and encourage debt, and debt service, reduction to the others, as called for with increasing insistence by some major industrial countries.

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