



**C O N T E N T S**

	Page
Economic development of under-developed countries ( <i>continued</i> )	
(a) Question of establishing a special fund for grants-in-aid and for low-interest long-term loans: report of the Economic and Social Council;	89
(b) Status of the proposal for the establishment of an international finance corporation: report of the Economic and Social Council	

**Chairman: Mr. Leo MATES (Yugoslavia).**

**Economic development of under-developed countries (A/2430, A/2447 and Corr.1) (*continued*):**

- (a) **Question of establishing a special fund for grants-in-aid and for low-interest long-term loans: report of the Economic and Social Council (A/C.2/L.204);**
- (b) **Status of the proposal for the establishment of an international finance corporation; report of the Economic and Social Council**

[Item 26]\*

1. Mr. RUYGERS (Netherlands) said the most striking feature of the post-war world was that economic problems had become interdependent on a world-wide basis and could only be solved simultaneously. It had been stated in the report of the Materials Policy Commission to the President of the United States (the so-called Paley Report) "that a policy of self-sufficiency is physically impossible"; if a developed country like the United States could not stand alone, the same was true *a fortiori* of the smaller and less-developed countries. Economic problems had grown beyond national frontiers and could only be dealt with through common efforts.

2. Unfortunately, economic nationalism had gained ground in the post-war world and governments in Europe had come up against impossible situations in trying to follow the policies adopted as a result of the 1929 crisis; what was in fact needed was international action in terms of the planned advancement of public welfare in its widest sense and in the widest field. To counterbalance existing forms of economic nationalism, the United Nations should encourage greater international economic co-operation.

3. The Netherlands was chiefly concerned with economic integration in Europe, but was also greatly interested in international economic co-operation. Western Europe, though one of the most advanced areas of the world, could hardly hold its own in the present tempo of economic development. Yet, some successes

had been achieved: a reduction in the dollar gap in recent months, the liberalization of intra-European trade, the beneficial influence of the European Payments Union. International co-operation was essential for dealing with commodity problems and for maintaining stability through the mitigation of price fluctuations. He quoted from the fourth report of the Organization for European Economic Co-operation and from a recent report of the Director-General of the International Labour Office to show that the connexion between the economic difficulties of Western Europe and the economic development of the under-developed countries was generally admitted. As stated in the Economic and Social Council's report (A/2430, paragraph 109), an expanded flow of capital to under-developed countries could help to solve the three main economic problems confronting the world: the maintenance of economic stability, the persistent disequilibrium in international payments and the relatively slow development of the under-developed countries.

4. The question of investment was related both to the proposed Special United Nations Fund for Economic Development and to the proposed international finance corporation. There was room for both public and private investment, but the latter was waning in importance and could not be expected to suffice to meet the needs of the under-developed countries. While it was generally correct, as stated by the United States representative, that development was closely tied to disarmament—and the Netherlands had accepted the inevitability of rearming for defence—yet the creation of SUNFED might be considered as an exception, because the sum required to start it was insignificant compared with the amount being spent on armaments, and could surely be afforded by the free world.

5. It was not certain that the alternatives were rearmament and economic development and, in the long run, the economic development of under-developed countries might be the more positive contribution to peace and security. Wide participation in SUNFED was essential, and his delegation was ready to help, but it should be realized that the spirit of big business alone was not sufficient to solve all problems. Nor would propaganda speeches describing the poverty of the under-developed countries help them; only practical support would be of benefit. The Director-General of the International Labour Office had rightly said in his 1953 report<sup>1</sup> that the problems of the under-developed countries could only be solved by world-wide effort and that, although the greatest responsibility lay with the peoples of those countries, the future might be faced with confidence if the more advanced countries could make even a fraction of the sacrifices they had made for their own protection.

6. He reserved the right to comment on the items before the Committee in greater detail later.

\* Indicates the item number on the agenda of the General Assembly.

<sup>1</sup> *Seventh Report of the International Labour Organisation to the United Nations, Geneva, ILO, 1953.*

7. Mr. CUADERNO (Philippines) said it was disheartening for the under-developed countries to find some of the highly industrialized Powers indifferent to the SUNFED scheme despite the express undertakings given in Articles 55 and 56 of the Charter. Some argued that there was no clash of interests between developed and under-developed countries, while others thought that the necessary assistance could be extended by the International Bank, and that the funds needed for industrialization might be supplied through domestic capital formation. Countries which had been looked to for financial assistance were finding it difficult to provide any.

8. The overriding importance of the SUNFED idea had been stressed by the responsible officials of the United Nations. Both the Secretary-General and the Principal Director of the Department of Economic Affairs had spoken of the development of the under-developed countries as a question of urgent priority; the matter had received added emphasis in an article in the *New York Herald Tribune* of 25 September 1953, which said that production in economically developed countries was increasing faster than population, whereas the reverse was the case in the under-developed countries, and that had dire consequences. Moreover, the Assistant Secretary of Commerce of the United States had expressed deep concern of the effect of population trends on economic development.

9. The central problem was the disparity in income levels between the developed and the under-developed countries. In bilateral aid programmes, the donor countries had always insisted on the adoption of social measures involving redistribution of wealth. If that were morally right and socially progressive, the same should be true of redistribution of income opportunities between countries. It was not pleasant to see food surpluses wasted and vast sums spent on entertainment while millions of people lived in poverty. It had been argued that the under-developed countries should use domestic savings as a source of investment capital, but those savings were inadequate. As early as 1949, he had pointed out that, to many under-developed countries, methods of financing were perhaps more important than technical assistance but, although four years had elapsed, little progress indeed had been made in the financing of economic development in the under-developed countries.

10. Income derived from exports had also been suggested as a source of development capital, but there were three very distressing drawbacks: first, the advanced countries imposed trade restrictions, aggravated by ingenious propaganda showing that the average tariff levels had been reduced, but which overlooked the fact that tariff rates on certain goods were so high as to actually exclude them. Secondly, income from exports was a poor source of capital for development because of its uncertainty. Raw materials, which represented the main exports of the under-developed countries, were liable to violent price fluctuations; thus rational planning of development financing became a virtual impossibility. Thirdly, some under-developed countries had been encouraged to explore and develop their reserves of strategic raw materials, but the countries purchasing the materials made no commitment regarding the prices or quantities they were going to pay, and it was likely that they would simply stop buying large quantities of those raw materials when the present crisis was over.

11. It had also been suggested that the under-developed countries should resort to the International Bank.

Although the Bank could help, essential financing of so-called "social overhead" expenditure did not seem to lie within its scope. The Assistant Secretary of Commerce of the United States had said that either the capital had to be supplied from domestic sources, or else foreign capital had to be supplied on a grant-in-aid basis imposing no future claims for repayment of principal or interest. The Bank could obviously not engage in lending operations of that kind. Moreover, that question had been thoroughly discussed in the report on *Measures for the Economic Development of Under-Developed Countries*<sup>2</sup> submitted by a United Nations group of experts in 1951. Pages 80-82 of that report explained why private foreign capital could not be relied upon as a main source of additional development capital. The opponents of a special fund had also pointed out that bilateral aid programmes continued to be an important source of development capital for the under-developed countries; but grants-in-aid were satisfactory neither to the donor nor the recipient.

12. In the case of bilateral aid arrangements, both donor and recipient should be above reproach. International amity would be jeopardized if the donor country used aid programmes as an instrument of pressure or if the recipient country exacted aid as the price for alignment on certain international issues.

13. The idea propounded by certain representatives that the advanced countries should pursue the latest technological advances while the under-developed countries should strive merely to improve their agricultural techniques ignored the fact that in a predominantly agricultural economy with a rising population, the rate of increase of the national income lagged behind that of population growth. In such economies *per capita* income was constantly falling and it was impossible to provide the people with many of the consumer goods necessary for them to maintain a decent standard of living. There was also a limited range of employment opportunities and, consequently, the problem of unemployment remained without solution.

14. The opposition of the advanced countries to the establishment of a special fund would be more understandable if all countries were equally responsible for the present condition of under-developed countries. That was not the case. The difficulties of the under-developed countries derived from the economic patterns which had been imposed on them by foreign interests over which they had no control. They thus found themselves in the paradoxical situation of possessing a wealth of resources and yet remaining in a state of poverty.

15. Former colonies could not therefore be blamed for their lopsided economies and they should be given truly impartial assistance through the United Nations so as to remove the invidious distinction between developed and under-developed countries.

16. If the whole array of aid programmes, both bilateral and international, at present being implemented, were co-ordinated under the auspices of the United Nations, a significant step would have been taken towards the establishment of SUNFED. Such co-ordination would prevent duplication of efforts which in turn would mean a more efficient utilization of aid funds and commensurately increased benefits to the recipient countries. If existing aid programmes were thus co-ordinated, technical and financial assistance could be given within the framework of a country's integrated devel-

<sup>2</sup> United Nations Publications, Sales No.: 1951.II.B.2.

opment programme rather than on the piece-meal basis of isolated projects which might not be of general or immediate benefit to the recipient countries.

17. In supporting the establishment of SUNFED the Philippine delegation had no desire to belittle the aid which the under-developed countries had received from the industrialized nations. If the under-developed countries viewed with impatience the reluctance of certain advanced countries to assist in the organization of a special fund, it was because they felt that the dangers inherent in the problems of the under-developed countries constituted a constant threat to world peace. A sense of frustration and urgency impelled those countries to exhort the United Nations to take positive and immediate action to implement one of its fundamental purposes: to promote "higher standards of living, full employment and conditions of economic . . . progress and development".

18. It was one thing to say that more careful thought should be given to the SUNFED idea but it was quite another thing to pigeon-hole it and do nothing about it. Such a policy would deceive hundreds of millions of people throughout the world who had come to look upon the United Nations as an instrument for their salvation. If SUNFED remained merely a hard-headed business proposition, it would fall far short of its real purpose. In fact it was a lofty project which could not be coldly reduced to dollars and cents. If it was to be worthwhile, it should be the product of both visionary and humanitarian ideals.

19. Mr. BETETA (Mexico) said that in theory the task of the Committee was to choose between the various methods of financing the development of under-developed countries. Those methods included the use first of private and public capital and secondly of national and international capital; the latter involved international organizations, individual governments, private credit institutions, direct national contributions and so on.

20. Those theoretical possibilities were in practice limited by the ability of each country to employ any of the above financing media in accordance with its needs, its economic position, its political organization and its ideology.

21. It was axiomatic that the economic development of under-developed countries was an indispensable prerequisite for the establishment of stable living conditions throughout the world, the easing of political tensions and the elimination of threats to the peace. It was also generally conceded that the limited opportunities for domestic savings in the under-developed countries impeded their progress and rendered external aid essential. While in agreement with those ideas, Mexico regarded foreign aid as complementary to efforts made at the national level.

22. The state was playing an ever-increasing role in the implementation of development programmes both in under-developed and advanced countries. Mexico, although it gave full scope to private enterprise, was no exception to that rule for between 1939 and 1952 the contribution of the state towards the gross national product was about 8 or 9 per cent. In certain sectors of the economy, such as transport, communications and electric power, the state had invested two or three times more than private capital. State intervention had thus produced a basic change in Mexico's fiscal policy: the federal budget was no longer merely co-ordinated state accounts but constituted a vast instrument in the strug-

gle to attain the social objectives which Mexico had sought to attain since the 1910 Revolution.

23. Such a fiscal policy, far from being one-sided, integrated all the measures which the state applied to achieve its basic economic objectives and was inspired by the important principle that real economic development must be based on national resources, with foreign capital playing a supplementary role. The bulk of national revenue was expended but a small residue remained for financing new projects. Accordingly, the main aim of Mexico's fiscal policy was to obtain the savings necessary to finance economic development programmes and provide a basis for private enterprise which had a large part to play in agriculture, industry, trade and in numerous services where the state could not intervene directly. Thus besides encouraging state organizations Mexico gave equal encouragement to private undertakings.

24. Fiscal policy could not accomplish its aim of promoting economic development and monetary stability without the necessary data concerning the co-ordinated control of revenue, expenditure and the public debt. For that reason Mexico was profoundly interested in fiscal studies, a field where international co-operation was also possible. An example of such co-operation was the International Workshop on Budgetary Management recently held in Mexico and attended by representatives of the Central American and Caribbean countries, the United States of America and Mexico.

25. His earlier remarks on the role of fiscal policy in the promotion of national economic development did not mean that Mexico disregarded the importance of international financial collaboration. It agreed that lack of national savings made it imperative that under-developed countries should receive aid from the advanced countries and from existing international agencies. It was generally agreed that such assistance should be further extended. Two solutions to the problem had been outlined by the Yugoslav and the United States representatives respectively.

26. The Yugoslav representative had said (259th meeting) that in view of the inadequacy of existing financial institutions another body should be created which would grant financial assistance to recipient countries on favourable terms. The *Report on a Special United Nations Fund for Economic Development* (E/2381) had outlined a plan which was both practical and modest. The next step was to draw up the statutes of the new body and give it sufficient publicity to overcome the initial misgivings of governments. The Yugoslav representative and others had supported such a step.

27. On the other hand, the United States representative had said (259th meeting) that, as the prospective contributors were reluctant to contribute to a special fund at the present stage, it would be preferable to improve existing media of international economic development. The Mexican delegation fully agreed that such media should be improved and expanded, but they could not be substituted for a new body such as a special fund. What was required was the immediate preparation of the statutes of the proposed fund so that when a political *détente* occurred, it could be brought into being without delay. In that way immediate and active international co-operation would be maintained. He pointed out that Mexico was not making that suggestion for selfish ends since it was unlikely in the event that the fund was created

that Mexico would have recourse to it, the country's international credit being such that it could negotiate the loans it required from abroad and meet the financial obligations they involved.

28. For the financing of basic development projects with foreign aid, his delegation considered that capital which the government could control itself was more beneficial than private investments, private investors being naturally concerned with profits and not necessarily with the welfare of the country concerned. With that conviction, the Mexican Government had studied with great interest the latest report of the International Bank (E/2441) and had noted with satisfaction the efforts it was making for the international financing of economic development. At the most recent meeting of the Governors of the Bank the Mexican representative had repeated the conviction that external financial aid should not be employed except in cases of absolute necessity and that economic development should be financed chiefly with domestic resources and with the help of improved co-ordination of public expenditure, better use of savings and more varied stimuli to private investment.

29. After giving examples of the excellent assistance which the International Bank had given to Mexico and particularly of the way in which it had adapted external aid to national requirements, he stressed the principle, already voiced by the Mexican Secretary of State for Economic Affairs, that foreign capital should in no case be given more favourable treatment than, or different treatment from, that given to national capital. In that connexion, he found himself in disagreement with the Saudi Arabian representative who had recommended (259th meeting) the establishment of a special code governing the relations of borrowing countries with foreign creditors. The Mexican delegation believed that such a code was already contained in the Constitution of each country and in the national legislation derived therefrom. The Mexican representative at the last meeting of the International Bank had expressed hope that the Bank would continue its vigorous support of under-developed countries and by helping to improve their standards of living would promote the great purposes of the United Nations.

30. The Mexican Secretary of State for Economic Affairs had stated that the wealthier nations should prove that war or preparation for war was not necessary for the maintenance of economic stability and that world prosperity was not inseparable from world anxiety. The great nations of the world had ample opportunities of adopting a monetary policy which would dispel fears of a new depression. To achieve those ends the investing countries should recognize the rights of all peoples and not impose on them conditions which infringed their national sovereignty. The Mexican Government was fully resolved neither to negotiate nor to accept foreign investments which did not satisfy that requirement; but it would give to foreign investments the protection which the Mexican Constitution and Mexican laws afforded to private property.

31. Mr. BUNGE (Argentina) stated that the Committee was once again discussing the establishment of a special fund and of an international finance corporation because the States which were in a position to bring them into existence still considered that the time was not ripe, although they were becoming increasingly conscious of the serious plight of two-thirds of mankind. It was absurd that progress could not be made

in using available resources and ingenuity in the general interest.

32. The anomaly was due to the discrepancy between a realization of the seriousness of the problem and the interpretation of international developments. Although never expressed in such bold terms, it was felt in some quarters that the world was divided into two areas, one in which technical progress was concentrated and the other destined to produce and export primary commodities, that events had changed the process of evolution towards an ideal world economic structure and that the only solution was to revert to the system of the past by removing trade barriers, guaranteeing private investments and letting the law of supply and demand govern the price of commodities. Yet the policies of the advocates of *laissez-faire* were themselves subject to all kinds of regulations. Private and governmental power was the real factor determining the nature of production and the distribution of wealth and little attention was paid to economic theory.

33. No economic system which ignored the fact that the aspirations of the under-developed countries to political sovereignty, economic independence and social justice were basic to modern economic development, had the slightest chance of success. Those countries demanded a larger share of available resources and better standards of security, comfort and health, not in order to attain the high levels prevalent in some areas, but in order to enjoy a certain decent standard of existence.

34. The backward areas of the world had to expedite their economic development in order to feed, clothe, house and care for their growing populations, and to approximate the living standards of the more developed areas. The rate of economic progress in the under-developed countries would have to be higher than in the industrialized countries if world stability was to be achieved. The United States representative had pointed out (259th meeting) that production in Latin America in the post-war years had increased by the surprisingly high annual rate of 5 per cent, but the Committee should note the comments of the Economic Commission for Latin America, in its study of the technique of programming economic development, regarding the average *per capita* gross product of Latin America as compared with that of the United States (E/CN.12/292). Tremendous effort and resources would be required to bridge the gap. Even greater efforts and resources would be required in the case of Asia and Africa.

35. To achieve greater productivity, the under-developed countries would have to integrate their economies in such a way that their populations were employed in remunerative and increasingly diversified activities. New industries would have to be established to absorb an increasing amount of their primary production without detriment to the export market and, as that would imply an increase in imports in proportion to export capacity, it would be necessary gradually to replace imports by national production. As the process of development was necessarily gradual, it would be impossible to accumulate domestic capital on the same scale as in countries with a diversified economy, and *per capita* production would thus be less. In other words, the optimum capital return would vary according to the degree of economic diversification. Hence the general economic development of the under-developed countries was a complicated process in which resources should be used with due regard to

local economic characteristics and maximum yield. The planning of development was thus necessary and was assuming increasing international importance. The annual report of the International Bank for Reconstruction and Development<sup>3</sup> devoted several pages to that matter.

36. Economic development was a painful process necessitating sweeping changes in the mode of living of entire peoples and great sacrifices, but the changes had to be effected by the peoples themselves in the exercise of their sovereign rights. The need for structural changes had also been felt in other countries, for example in Western Europe, where new experiments, such as the Coal and Steel Community, had been brought about by current world events. The establishment of similar economic unions in the under-developed areas would accelerate their development. His country's recent economic agreements with Chile and Paraguay were important steps forward in that direction.

37. Both processes to which he had referred—integrated economic development and regional economic co-operation—depended mainly on the people directly concerned, but also on world consciousness and on international guidance. Although there was general agreement regarding the seriousness of the problem, it was not known exactly what procedures should be adopted. It was therefore necessary to understand clearly what was required.

38. Failure to appreciate the tremendous effort required to change the world's economic structure led to a negative approach, which only aggravated the situation. Despite the best intentions, the difference in living standards between the more advanced and the under-developed countries had widened steadily in the post-war years. The international agencies established to stabilize the expanding world economy were not adequate, as they had been founded on premises designed to maintain the *status quo*. Organizations such as the International Monetary Fund, the International Bank and GATT illustrated the discrepancy between the need for effective international co-operation and the means and resources available.

39. While agreeing with the United States representative that economic development depended primarily on national effort and enterprise, he pointed out that, unless international encouragement was forthcoming, the objective might not be attained. It was therefore essential to review existing international organizations in order to relate them more closely to the requirements of the under-developed countries. He supported the proposal to establish a special fund; its early establishment would facilitate changes in the world economic structure. He disagreed, however, that its establishment should depend on sufficient progress being made in internationally supervised world-wide disarmament, in other words on the policies of the great Powers. Apart from its obvious benefits, disarmament would, of course, tend to supplement the finances of the Special Fund, but disarmament should be regarded as a source of additional income and not as an essential condition for the fund's establishment.

<sup>3</sup> International Bank for Reconstruction and Development, *Seventh Annual Report, 1951-1952*, Washington D.C.

40. While supporting the establishment of a special fund in principle, he did not believe that it was the best solution; there were other possibilities. One very important step would be to stabilize the prices of primary commodities in relation to those of manufactured goods in international trade. General Assembly resolution 623 (VII) was an initial effort to find a practical solution and the report of the group of experts appointed under the resolution would be extremely useful. The studies submitted in documents E/2438, E/2455 and E/2456 were valuable contributions. Price fluctuations affected not only the under-developed countries but also the highly industrialized countries dependent on foreign trade. The stabilization of prices would thus benefit both buyer and seller. As primary commodities accounted for 60 per cent of world trade, the inflexibility of supply and demand produced serious fluctuations to the detriment of the general economy. He was convinced that human ingenuity would find a method of ensuring stability without detracting from the other objectives.

41. If it was intended to achieve integrated economic development and to expedite the economic development of the under-developed countries, it was not advisable to advocate the liberalization of trade without taking into account the principles which he had mentioned. The policy of a country with a positive trade balance could not be the same as that of a country with a negative balance, and the problem should therefore be considered realistically. The principles of the Havana Charter and of GATT should be revised and related to current circumstances. The decision or threat to introduce trade restrictions seriously affected countries producing primary commodities. His own Government, for example, had recently been obliged to protest against United States restrictions on wool imports from Argentina. He trusted that the decision of the United States on the matter would take Argentina's legitimate interests into account. In that connexion he drew attention to General Assembly resolution 623 (VII), paragraph 1 (a).

42. One important factor in the economic development of under-developed countries was foreign private investment. The economy of many countries was based on private enterprise, particularly in the productive industries. Accelerated economic development depended mainly on the accumulation of domestic capital. Foreign capital could be helpful in encouraging that process. The role to be played by foreign investment should therefore be determined in an atmosphere of mutual respect and confidence. Foreign investment was of basic importance to the under-developed countries in helping them to attain a satisfactory rate of economic development. A recent Argentine law guaranteed that foreign investors would enjoy the same rights as national investors. Much could be done to stimulate greater foreign investment, such as exemption from double taxation and the establishment of an international finance corporation. The existing machinery for achieving the fundamental objectives was inadequate but, once the transitional stage had been passed, the time would come for the United Nations to convene an international economic conference to devise suitable machinery for bringing about the required structural changes in the world economy.

The meeting rose at 1 p.m.