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AGENDA ITEMS 12, 29 AND 74

Report of the Economic and Social Council (chapters II (sections I, II and III A, except paragraphs 189-198), III, IV and VII (section I and paragraph 645)) (A/4415) (continued)

Economic development of under-developed countries (continued):

- (a) International flow of private capital: report of the Secretary-General and recommendations thereon by the Economic and Social Council (A/4487, E/3325 and Corr.1-3);
- (b) Question of the establishment of a United Nations capital development fund: report of the Secretary-General (A/4488, E/3393, E/3393/Add.1-4);
- (c) Methods and techniques for carrying out a study of world economic development: report of the Secretary-General and comments thereon by the Economic and Social Council (A/4489, E/3379, E/3379/Add.1-6);
- (d) Promotion of wider trade co-operation among States: report of the Secretary-General (A/4490, E/3389)

Land reform (A/4439) (continued)

GENERAL DISCUSSION (continued)

1. Mr. KHADRA (Saudi Arabia) said that one of the salient phenomena of modern times was the ever-growing awareness of the major role played by economic development in international affairs. Many countries which had thrown off the fetters of colonial rule were facing the urgent problems of development and needed assistance from bilateral, regional or — preferably — United Nations sources. At the same time the improvement in communications made possible by scientific advances had increased the interdependence of peoples and emphasized the need for generous mutual assistance.

2. In order to eliminate the paradoxes of over- and under-production, over- and under-population, affluence and poverty, and to close the widening gap between the developed and the under-developed areas, it was urgently necessary to establish a United Nations capital development fund. A number of industrialized countries, while agreeing in principle that such a fund was necessary, had argued that their current arms expenditure prevented them from contributing. The wisdom of that attitude was questionable. While the imperative need for disarmament was generally recognized, the views of the great Powers on that subject were still widely divergent. And yet what a blessing for mankind if only a fraction of the amounts spent on armaments were set aside for development!

3. At the previous session, the Yugoslav delegation had submitted a resolution, co-sponsored by forty-five under-developed countries, including Saudi Arabia, requesting the Secretary-General to examine, in consultation with Member States, ways and means of making further progress towards the establishment of a capital development fund.^{1/} The replies received by the Secretary-General (E/3393 and Add.1-4) had been disappointing. On the other hand the establishment of the International Development Association was to be welcomed as a step that could do much to assist the under-developed countries by financing basic projects at low interest rates. The increased lending activities of IRBD and of the International Finance Corporation were equally gratifying.

4. The international flow of private capital had increased but the total funds available were still insufficient to meet the needs of the under-developed countries, although capital movements among already industrialized countries far exceeded their requirements. In that connexion, it should be recognized that investors were entitled to protection against business

^{1/} Official Records of the General Assembly, Fourteenth Session, Annexes, agenda items 30 and 12, document A/4321, para. 53 and 54.

risks, particularly by recourse to international arbitration machinery.

5. The need for the establishment of a commission for industrial development was still urgent. In response to General Assembly resolution 1431 (XIV), the Economic and Social Council had debated whether such a body should take the form of a standing committee, a functional commission or an advisory group of experts. His delegation earnestly hoped that the standing committee established would stimulate financial and technical co-operation for the purpose of industrializing the under-developed countries.

6. The Under-Secretary for Economic and Social Affairs had referred in his statement (646th meeting) to the fall in commodity prices and the continued fluctuation in the price index. As an oil-producing country, Saudi Arabia had been adversely affected both by the unilateral and sudden reduction of oil prices and by the instability of the market. Such fluctuations discouraged initiative, disrupted economic planning, and played havoc with the financial stability of his country. To consider the situation, a conference of oil-producing countries had been convened in Baghdad in September 1960 and had decided upon the establishment of a permanent consultative organization designed to forestall price fluctuations. The details would be worked out at another conference to be held in Caracas, Venezuela, in January 1961.

7. At the first Arab Petroleum Congress held in Cairo in 1959 international pro-ration had been put forward by the Saudi Arabian Government as a means of stabilizing the world market by preventing over-production, avoiding the economic waste resulting from the unnatural depression of prices, and conserving an irreplaceable natural resource. The initial step would be an agreement among net exporters based on the following factors: the application of uniform methods of estimation to assess the proved resources of each country; the encouragement of sound conservation by participants; provision for future discoveries; and the use of a correction factor to allow for a participant's current market position.

8. His Government was seeking approval for the concept of pro-ration at the second Arab Petroleum Congress which had opened at Beirut. It would also press for the adoption of arrangements whereby, instead of merely sharing in the net proceeds, Governments would actively participate with the oil companies in all phases of the industry. Any unilateral action by a foreign enterprise that might be deleterious to the interests of the producing countries would thus be precluded.

9. It was his Government's firm policy to diversify the country's economy, develop its natural resources, and stabilize its income. The dollar-riyal exchange rate had been stabilized and Saudi Arabia's subscription to IMF had been raised from \$10 million to \$50 million. The Government had also increased its subscription to the Bank. A ministerial committee had been appointed with comprehensive terms of reference to deal with every facet of economic development. The Government was co-operating with the appropriate United Nations agencies in the search for additional mineral resources, and numerous other projects had been launched, including the construction of a network of paved highways, the building of dams and reservoirs for irrigation purposes, the provision of tractors and

combines at reduced rates to farmers, and the development of water resources.

10. In the educational field, vocational, industrial and technical schools were being set up. Students were being sent abroad in increasing numbers at Government expense. Most of them intended to specialize in petroleum engineering, petro-chemical engineering, and geology. Others were studying medicine, veterinary medicine, and mechanical and electrical engineering.

11. Saudi Arabia was passing through the initial stage of development. It hoped that the preliminary projects he had mentioned would form a basis for wider measures of development and that in the years to come the momentum of reform would gather strength and open up wider vistas of improvement.

12. Mr. ZAIN (Indonesia) said that although the nature of the economic problems confronting the Committee had not changed greatly since the last session there seemed to be a greater and more urgent need to find solutions for at least some of them. The amount of international assistance available through the United Nations still fell far short of what was required and the economic horizon was not without clouds. Although the industrialized countries had increased their production and national income in 1959, and the Soviet Union and other socialist countries had maintained a strong rate of economic growth, the situation in the less developed countries had not been as satisfactory as the general trend of the trade cycle would have warranted. Above all, the possibility of a stagnating or receding United States economy remained a matter of concern for the world as a whole and the less developed countries in particular.

13. Regardless of the course of events in the United States, however, solutions must be found for the pressing needs of the less developed countries. From the international point of view, the economic problems of those countries were a result of the instability of their export markets. It would be an interesting study to calculate the multiplier effect of the instability of export markets on the national income of the countries affected.

14. Because of the international nature of the short run fluctuations in the prices of primary products, it was clear that action to overcome them had to be undertaken on an international basis. A favourable international trade cycle was not a sufficient guarantee against such instability, as had again been demonstrated by the more than 20 per cent decline in coffee and cocoa prices in 1959, despite the boom conditions prevailing in all industrialized countries. It was equally doubtful that internal monetary equilibrium, the remedy sometimes recommended by some industrialized countries, could solve the problem, since it could not guarantee stable effective demand. Another solution sometimes recommended and practised, the curtailment of production, could not be regarded as satisfactory, since it ran counter to the basic aim of increasing consumption and promoting economic development.

15. Until attention was concentrated on the central problem, the phenomenon of short run fluctuations in raw materials prices, no adequate solution would be found. The subject was being studied by the Commission on International Commodity Trade, but in the

meantime his delegation would suggest that the idea of buffer stocks, preferably on an international basis, was a fruitful one. It would also advocate a comprehensive rather than a commodity-by-commodity approach to the problem although, for practical reasons, it was prepared to support the establishment of international buffer stocks for individual commodities, such as tin. The IMF might play a helpful part in the financing of such buffer stocks by allowing members special drawing rights in view of their obligation to contribute to the financing of buffer stocks, especially now that it had fairly substantial financial means at its command. His delegation was grateful that the Fund's Managing Director had promised to keep the problem of export market instability under further review, and it would recommend that the Commission on International Commodity Trade should seek constant contact with the Fund, not only for the purposes just mentioned but in view of the Fund's wide and valuable experience in the matter of balance of payments difficulties.

16. Another development which would eventually have an unfavourable influence on the exports of primary producing countries was the growth of such regional groupings as the European Economic Community. The common tariff structure envisaged by that grouping was discriminatory in nature and it might be useful to discuss its harmful aspects either in the Committee or in the Economic and Social Council, provided that the Council's membership was increased, as it should be, to reflect the present composition of the United Nations.

17. The procurement of external assistance for the under-developed countries through the United Nations was the second great problem facing the Committee. The world economy could not expand unless the increased supply of goods and services from the highly developed countries was matched by an adequate rise in effective demand. The potentialities for such a rise in demand were present in the less developed countries, but that demand could not become effective until their production had increased. There was an iron law of economic interdependence between the industrialized and the less industrialized countries, and the economic division of labour imposed in the past could no longer be maintained.

18. It was regrettable that the clear task of the United Nations with respect to economic development was sometimes obscured by other motives. The problem should be dealt with on economic lines and without allowing it to become a battleground for rival political and social ideologies. The less developed countries were becoming increasingly aware of their own national identities and would increasingly refuse to be a target of the rivalry of others. The provision of external assistance must be adapted to that situation, and such assistance, whether technical or financial, must be rendered within the national, social and economic framework of the recipient countries. Indonesia, for example, while not rejecting private enterprise, did not, on the other hand, accept the dogma that private enterprise was the only means to progress. Its Government believed that in a country like Indonesia the State must play a leading part in promoting and stimulating economic development. That belief should not make it ineligible for assistance; on the contrary, assistance should be given with full understanding of Indonesia's social and economic organization. Naturally, Indonesia would have to take into consideration the views of the other party. In the past,

however, that spirit of mutual accommodation had been lacking, and the same was true of all the less developed countries.

19. Turning to the more specific aspects of the problem of assistance, he said that the United Nations technical assistance programmes had performed valuable service since their establishment and were proof of the value of the United Nations as an international channel for the promotion of progress and development. The programmes were flexible and imaginative and their new offshoot, the OPEX programme, also seemed to be growing fairly well. The only thing to be deplored was the lack of funds. That was also true of the Special Fund, which must in his delegation's view be followed up by the creation of an organization within the framework of the United Nations which could render financial help in converting pre-investment surveys into directly or indirectly productive investments. One major argument against the establishment of such a fund had now lost its force. It could no longer be argued that as long as the problem of disarmament remained unsolved no funds would be available for SUNFED. An International Development Association had just been established, the funds for which could surely have been made available for SUNFED. With many more nations in need of financial assistance for their economic development, the need for a capital development fund was greater than ever, and his delegation was willing to support any step which would lead to its establishment.

20. His delegation agreed that there was room for other development activities in addition to action through the United Nations. However, the often-voiced requirement that the less developed countries should create a favourable climate for private capital investment must be examined with care, for it was impossible to recreate the conditions which had encouraged such investment in the past. New forms and methods must be found for co-operation between private investors and less developed countries. In fact, such co-operation should more closely approach the form of a technical and financial agreement on negotiated terms; on that basis, it would be irrelevant to the investor whether his partner was a Government, a state-controlled enterprise or another private entrepreneur.

21. His delegation was aware of the fear felt by foreign investors that obligations undertaken might not be fulfilled, and thought that the idea of government insurance against such risks, which was now available in some industrial countries, might be applied on an international scale, through an international investment insurance fund. More important than such devices, however, would be a change in attitude on the part of investors. New and flexible forms of co-operation could be worked out provided both parties respected each other's interests.

22. Although the technical and financial aspects of economic development were, in his delegation's view, the most important, the United Nations should not neglect other development problems, such as land reform, and his delegation looked forward with interest to the statements to be made on that subject. Other important United Nations activities were such long-term projects as the study of industrialization and the Secretariat's work in the field of economic planning.

23. In closing, he appealed to the great Powers to devote serious attention to the present international economic situation, in which assistance was so increasingly needed. There was still time to correct the mistakes of the past, and to move forward to an expanding world economy in which all nations were prosperous.

24. Mr. B. K. NEHRU (India) said that Mr. de Seynes' summary of the world economic situation and the various reports before the Committee presented the familiar picture of the developed countries making steady and substantial economic progress, with most of the under-developed countries trailing far behind. At successive sessions, the latter countries had complained of their position, while the developed countries had listened with sympathy and described the assistance they had given, pleading a shortage of resources, which nonetheless continued to increase at a prodigious rate. He believed that the United Nations would be betraying the trust of the world if it did not, at the current session, give a vigorous lead to those Governments which could help in some measure to abolish human misery.

25. The present disparities between nations in levels of living were of such proportions as would not be tolerated within any national community: annual per caput national incomes ranged from \$2,700 to \$50. That disparity was, moreover, increasing, since growth of income was often a direct function of capital investment, which poor societies had great difficulty in undertaking. India, for instance, hoped, through supreme national effort and great self-sacrifice, to invest in five years the equivalent of what was invested in the United States economy every three months.

26. Apart from its deplorable moral effect, the continued poverty of the majority of mankind was detrimental to the richer communities, since the greatest single obstacle to the growth of world trade was the fact that over 2,000 million people could not afford to purchase the goods they needed. A further consequence was the very real and imminent danger of serious political and social instability in many parts of the world. Having gained their independence, the peoples of former colonial territories tended to revolt against the conditions of poverty and stagnation in which they lived. Poverty was no longer regarded as inevitable and no social or governmental system could retain the loyalty of the people if it did not respond adequately to their need for economic development. The under-developed countries were therefore faced with the problem of finding a form of social organization which best met that need, a problem which none of the industrialized countries had encountered, for their economic development had begun under very different circumstances. In the early stages of Europe's industrialization, the attendant hardships had to some extent been alleviated by the benefits derived from colonies and the opportunities for migration. Even so, the contrasts between wealth and poverty had produced discontent, which might have destroyed the social system. The Western capitalist society had not however been destroyed but had flourished, because it had transformed itself beyond recognition into a society which, through the organized power and will of national governments, had accepted and carried out the dictates of social justice and effected a more equitable distribution of wealth. The same remedy

must now be applied on an international scale, if organized world society was to continue and not split up into even more hostile factions, and if wars and revolutions were to be avoided.

27. To remove the causes of such discontent, action on a very substantial scale must be taken immediately. The populations of Asia and Latin America were increasing and any decline in the pace of economic development there would reduce the entire social system to chaos, especially in countries where such development was already appreciable. In Africa, the problem must be tackled without delay, if the newly emergent States were not to be swamped by the discontent of their peoples. It could not wait for disarmament, balanced budgets, available capital, or foreign exchange surpluses. Co-operation in world economic development was an obligation of the richer nations and should be treated on the same basis as other national obligations. The world community was now rich enough to devote a small proportion of the annual increase in its wealth to that essential and urgent task, for reasons of economic self-interest and political stability if not of humanity.

28. There seemed however to be no immediate prospect of correcting the imbalance, in view of the vast accumulations of wealth amassed over the years by the richer countries. The goal of international action should be to help a country to reach the point of take-off, the stage at which its economy became self-generating and self-sustaining. The international community should help nations to achieve economic independence as it had aided them to political independence, for without economic independence, political independence was meaningless and could not endure. Developing countries must first be helped to formulate plans and programmes designed to secure their economic independence in the shortest practicable time. Such plans would establish priorities and reveal critical shortages. Economic growth was not entirely a matter of capital investment, but presupposed also a stable political government, good administration, able management and technical knowledge. Facilities for technical assistance already existed in the United Nations and IBRD. Nearly all under-developed countries needed technical assistance as well as capital, but in varying degrees and of different kinds. With the emergence of the newly independent African States, existing technical assistance programmes, both international and bilateral, were totally inadequate and should be expanded.

29. It would also be necessary to supply the capital needed for development. While poor societies were unlikely to be able to save the necessary capital out of their meagre incomes, his delegation believed that by far the greater proportion of the capital should come from the efforts and sacrifices of the peoples of the under-developed countries, for otherwise economic independence, like political independence, would not be appreciated or cherished. Outside assistance was, however, necessary to avoid imposing an intolerable burden on peoples already suffering from poverty, and to preserve the social systems under which there was least interference with the freedom of the individual. Outside assistance should supplement and not supplant national effort, as any society which did not make the maximum possible effort forfeited its claim to such assistance. To enable developing countries to help themselves, the industrialized countries would

first of all have to free those countries' exports from tariffs, quota restrictions and taxes, which were imposed largely for protectionist reasons. In many cases, modern industrial societies were subsidizing minor and relatively inefficient industries at great cost to themselves and to the detriment of the developing countries.

30. As several delegations had indicated, fluctuations in the prices of primary commodities and unfavourable terms of trade could cancel out all the outside assistance given to the under-developed countries. The problem had for a long time evaded solution and his delegation would support any fresh move to eliminate that handicap to development.

31. It was in the matter of capital assistance that industrialized countries had been least willing to co-operate. The IBRD and the International Development Association had been set up for that purpose, but all efforts to establish a capital fund within the United Nations itself had been blocked by the industrialized countries. Bilateral assistance programmes provided far more capital than international institutions, and the United States made the largest contribution on terms that did not involve an appreciable foreign exchange burden. Many countries in a position to give similar assistance had not done so, or had contributed on a disproportionately small scale. According to a number of authoritative estimates, a net capital inflow of about \$7,000 million a year was needed to help the under-developed countries progress to the level of self-sustaining development at a rate that was adequate from the political standpoint. The present net capital inflow did not approach that figure. It should be borne in mind that, while the gross inflow of private and public capital, as shown in the two documents prepared by the Secretariat and now before the Committee (E/3369, E/3395 and Add.1), appeared to be at a reasonably high level, it included the total amounts of long-term credits and defence support grants, but did not make allowance for interest charges or outgoing profits. Defence support funds, made available to counteract the economic effects of increased military expenditure, did not promote economic development and should be excluded. The capital assistance figure also included the full value of surplus agricultural commodities made available to the under-developed countries but, while those surpluses were most welcome, the valuation put on them by the donor countries bore no relation to the internal capital they released for economic development. Thus corrected, the figure for net capital inflow seemed very small in relation to the requirements, and his delegation suggested that subsequent reports should give the net figures.

32. The IBRD had given outstanding assistance to under-developed countries, but it was a hard-money institution which charged interest and had to limit its loans to sums which, by external credit standards, were commensurate with the borrowing country's capacity to achieve a foreign exchange surplus. Many of the Bank's borrowers had already reached that limit but still urgently needed funds for projects whose importance and economic soundness the Bank did not question. The International Development Association had been established to meet that need, but his delegation was disappointed at the meagre funds placed at its disposal. Its effective capital amounted to \$750 million to meet the soft-loan needs of countries with

a total population of about 1,200 million over a period of five years. The provisions governing the subscription of capital made it impossible for the Association to receive, and therefore to distribute, more than about \$150 million a year, on the grounds that any other scale of subscription would involve budgetary complications for the richer countries. The only other international institution providing capital for development was the Inter-American Development Bank, which operated on a regional basis. The under-developed countries were therefore obliged to turn to bilateral assistance, although economic aid provided through an international body had the advantage of being free from the suspicion that it was given for political motives and was subject to political conditions.

33. In view of those considerations, his delegation would support any proposal to establish a United Nations capital development fund, and would also suggest that the capital of the International Development Association be doubled forthwith and the system of subscription amended to ensure that 50 per cent of its increased capital was immediately available. If the developed countries preferred to give assistance through bilateral arrangements, his delegation was prepared to accept the position, though reluctantly, but the main question was whether those countries were willing to sacrifice a fraction of the annual increase in their wealth for that purpose. The gross national income of the developed parts of the world was approximately \$1 million million a year — probably between \$800,000 million and \$900,000 million net — of which 1 per cent, if made available largely in the form of soft loans, was all that was needed to set many under-developed countries on the road to economic viability. The General Assembly should state that, in its opinion, the world community should make such a sacrifice.

34. Many under-developed countries preferred to receive capital from private sources and his delegation had no objection to such arrangements, provided they did not subsequently impose a heavy burden on the balance of payments of the under-developed countries. Private foreign capital had an important part to play in world development and it was incumbent on all under-developed countries to afford reasonable incentives to private foreign investment and eliminate unnecessary obstacles preventing it. There was however no significant flow of private capital to under-developed countries and, if the developed countries wished to lessen the burden of foreign aid on the taxpayer by transferring part of it to the private investor, they would themselves have to take appropriate action.

35. Turning to the distribution of capital assistance, he pointed out that, on the basis of its criterion of economic viability, IBRD could grant the biggest loans to the richest countries. Private capital naturally flowed to areas where conditions were most stable and profits highest, and was not interested in the infrastructure of economic development. Grants of assistance on a bilateral basis seemed to depend largely on political factors, or on the extent to which the potential recipients excited public interest. He suggested that capital-exporting countries should be guided in the distribution of funds under bilateral programmes by such factors as population, degree of poverty and self-sacrifice, the existence of an effective development programme, absorptive capacity and proximity to economic viability. It was well to bear in mind that

in the period 1948-1959, the per caput assistance received by under-developed countries from all sources had ranged from \$158.2 to \$3.9. He would urge therefore that as much of the capital assistance as possible should be channelled through the United Nations or its specialized agencies. Another factor not generally appreciated was that continuity of assistance and an assurance of the amount which would be available over a reasonable period in the future was essential for effective planning and optimum utilization of the assistance received.

36. In conclusion, he expressed the conviction that with international co-operation on an adequate scale, mankind could rid itself of poverty, misery and want in the foreseeable future. But time was running out and the cost to salvage a situation in which hope and energy had given way to despair and bitterness, as a result of short-sighted, selfish policies, would be far greater than the cost of the proposals he had just made.

The meeting rose at 12.40 p.m.