



*Tuesday, 17 October 1950, at 10.45 a.m.*

*Lake Success, New York*

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*Chairman: Mr. Gustavo GUTIÉRREZ (Cuba).*

**Economic development of under-developed countries: report of the Economic and Social Council (A/1345 and A/1359) (*continued*)**

[Item 28]\*

1. The CHAIRMAN announced that draft resolutions relating to the subject of the economic development of under-developed countries must be submitted by 4 p.m. on 18 October at the latest. He called for a continuation of the general debate.

2. Mr. DE FARO (Brazil) said there were two sides to the problem of economic development: technical assistance and financing. The Economic and Social Council had truly achieved considerable progress in the matter of technical assistance, but it had barely touched on the problem of financing.

3. That was understandable since the issue of the financing of economic development had so far been relegated to the background by the needs of reconstruction. Moreover, the problem was so complex that capital-exporting countries hesitated to go forward without having a clearer idea of the commitments involved.

4. It was true that the Economic and Social Council and its subsidiary organs had never been in a position to take practical steps for the financing of economic development. Indeed, the Council's eleventh session had marked a retrograde step in relation to the recommendations of the Sub-Commission on Economic Development.

5. Council resolution 294 (XI) was an attempt to reconcile economic idealism and financial conservatism. After noting that the domestic resources of under-developed countries were not sufficient to assure their economic development and that foreign financial assistance had been inadequate, the Council had merely exhorted the countries concerned to help themselves, to

make better use of the existing resources of international and governmental credit agencies and to take measures to encourage the flow of private capital.

6. In considering the question of the financing of economic development, the Council had been guided by two basic ideas which he described as "stereotypes": (a) that the resources currently at the disposal of international or governmental credit agencies were sufficient to satisfy the main needs of economic development; (b) that if a favourable investment climate were created private capital would move into the under-developed countries.

7. With reference to the first of those ideas, the resources of the International Bank for Reconstruction and Development had been considered modest even at the time of its establishment. It had since become clear that both reconstruction and development needs had been grossly underestimated.

8. The Marshall Plan had been introduced in order to meet the scarcity of capital in the field of reconstruction, but no comparable provision had been made for world economic development. On the contrary, two accidental factors had considerably reduced the lending capacity of the Bank: first the inconvertibility of currencies and supply deficiencies in Western Europe, which had restricted funds to credits in dollars or to bonds floated on the dollar market; secondly, the rise in prices due to world-wide inflationary trends had reduced the purchasing power of the available capital.

9. Thus out of the \$816 million outstanding loans by the Bank, only \$322 million, or 40 per cent had been allocated to economic development.

10. Out of \$495 million annually lent by the United States Export-Import Bank, only two-thirds could be considered as development loans. Moreover, that Bank had adopted very strict criteria, as a result of which in 1949 and during the first eight months of 1950 interest and amortization payments had exceeded loans.

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

11. Capital exported from Europe went almost exclusively to Non-Self-Governing Territories.

12. It was thus clear that the existing machinery for financial assistance was not adequate to satisfy the needs of the under-developed countries. Indeed, according to estimates by the Food and Agriculture Organization, those countries required at least \$3,900 million a year in foreign capital in order to implement their investment plans. One of the members of the group of experts which had prepared the report on *National and International Measures for Full Employment* considered that to cover the needs of under-developed countries international investment should be not less than \$2,000 million a year.

13. Thus a vicious circle seemed to have been created. On the one hand the lending agencies, in view of their available funds, considered the establishment of new financial lending facilities unnecessary; on the other hand the reason why those funds were not fully utilized was the limitations of their resources which led them to ration credit according to strict banking criteria.

14. He had no intention of criticizing or minimizing the important contribution which the International Bank for Reconstruction and Development and the Export-Import Bank had made to the development of the under-developed countries. In particular, he wished to thank the Bank for the three important measures it had adopted for the financing of economic development.

15. First of all the Bank had only recently decided to give development loans priority over reconstruction loans; the Brazilian Government hoped that the Bank would continue to follow that policy even after the European Recovery Programme had come to an end.

16. In the second place, the Bank had agreed to take into consideration in granting credits not only specific projects but also the extent, composition and financial implications of the whole investment programme of the borrowing country. He was grateful to the Bank for having adopted that policy, but he hoped that it would examine either the total programme or the details of specific projects, and not make its loans conditional on a previous inquiry into both.

17. Thirdly, the Bank had adopted a more liberal attitude than it had in the past towards the financing or requirements in local currency.

18. All those measures helped to improve the situation somewhat, but the fact remained that the resources which could be made available for economic development by international institutions were markedly inferior to the needs.

19. In the matter of private investment, the Council erred in supposing that the creation of a favourable climate was sufficient to attract private capital to the under-developed countries. The most urgent investment requirements in the under-developed countries were for transport, public health, education and power. Such investments, however, were not particularly attractive to private capital. Moreover, the post-war needs in the traditionally capital-exporting countries for reconversion, reconstruction and rearmament had enormously increased. The profit margin between capital invested at

home and abroad had so diminished that it no longer adequately offset the risk of foreign investment.

20. For all those reasons the flow of capital was inadequate, and he quoted certain figures showing that the international investment rate was very much lower than it had been in 1910-1913, or even in 1928.

21. It was therefore very doubtful whether the creation of a particular climate in the under-developed countries could remedy the situation. Such countries could indeed give investors of foreign funds only certain legal guarantees which might be of no economic significance. Real economic guarantees, such as repatriation and transfer of profits, depended on the quantity of foreign exchange available to the particular country and on its balance of payments, the fluctuations of which were outside the control of an under-developed country.

22. All that showed that measures to encourage investment abroad must be taken by the capital-exporting countries themselves. In that respect the Sub-Commission on Economic Development had gone much farther than the Council, for it had not merely stated the need for creating a favourable climate, but had recommended that the more developed countries should grant certain taxation privileges to capital invested abroad and encourage the conclusion of long-term contracts for the production of raw materials. Such was the situation in regard to the financing of development.

23. To remedy that lack of capital, the Indian representative on the Sub-Commission on Economic Development had proposed the establishment of a United Nations agency to be responsible for development. The group of experts which had studied the question of full employment had, in turn, recommended the setting up of a special department in the International Bank for Reconstruction and Development to grant development loans. The Brazilian delegation preferred that solution as being simpler. Its execution would of course require very detailed studies.

24. Finally, there was a third method of stimulating the flow of capital. The under-developed countries could conclude bilateral agreements with capital-exporting countries for the compilation of joint development plans. That method was more flexible and allowed a more precise definition of the financial commitments which would be assumed.

25. Turning from the question of financing to technical assistance, Mr. de Faro noted with pleasure that General Assembly resolution 200 (III) enabled a permanent though modest technical assistance programme to be started. Brazil had already profited from the assistance of a number of experts, and he wished to express his government's satisfaction with what had been done.

26. His delegation unconditionally approved the Council's recommendation embodied in its resolution 291 A (XI) to allocate to that programme for 1951 credits as substantial as for 1950. It also approved the recommendation contained in that resolution that a special fund should be established for technical assistance. However, in view of the needs of the under-developed countries those two programmes could be considered only as a very modest beginning, the starting point of an immeasurably greater task.

27. In conclusion, Mr. de Faro touched on the administration of the technical assistance programme.

28. Having outlined the measures taken by the Economic and Social Council to improve co-ordination between the Technical Assistance Board and the Technical Assistance Committee, he stated that the TAC should receive all the information necessary for assessing the results achieved and those which might be expected from the expanded programme.

29. In his opinion, lists of requests for assistance should be sent each month to members of TAC in order to avoid a multiplicity of reports. Nevertheless, TAC should also be entitled to send observers to all meetings of TAB, just as the Inter-American Economic and Social Council was entitled to representation at meetings of TAB where questions with which it was concerned were being examined. Another method would be to make available to members of TAC the records of meetings held by TAB.

30. He considered it premature to try to limit the number of TAC sessions to two a year. He even thought it would be advisable to convene TAC during the current session of the Assembly—for example during the first half of November.

31. Finally, the Brazilian delegation considered that the specialized agencies also should receive lists of requests, for they could make a very important contribution to the work of technical assistance.

32. He was aware that resolution 222 (IX) of the Economic and Social Council represented a compromise between very different points of view. Nevertheless, that compromise was perfectly practicable and, if both the spirit and the letter of the resolution were strictly observed, the success of the technical assistance programme would be assured.

33. Mr. AL GIRAFI (Yemen) said that his delegation had read the Economic and Social Council's report<sup>1</sup> with great interest. The work and research undertaken by the Council and the Secretariat were extremely valuable.

34. Because of its geographical and strategic position, Yemen could play an important part in the stabilization of world economy. In the past, it had been a trading centre between the Far East, the Middle East and Africa. For the time being it was one of the under-developed countries, but it was determined to develop its economy and thus to become once more an important element in world stability.

35. He pointed out that many under-developed countries were suspicious of foreign investments, because in the past such investments had always been accompanied by imperialist tendencies and selfish exploitation by foreign enterprises.

36. If the United Nations undertook to assist the under-developed countries so that they might eventually help themselves, they would all collaborate with the other countries of the world in order to ensure the welfare of their own citizens and of all mankind. The Government of Yemen had contributed 20,000 Indian

rupees to the work of technical assistance, and hoped that further economic progress would enable it to increase that contribution in the future.

37. The report of the Economic and Social Council showed that the programmes put into effect by the Council were far from universal. Many under-developed countries covering vast areas had not even heard of programmes of economic and social assistance. The economic and social activities of the United Nations should therefore be extended to all the under-developed regions throughout the world. To that end, a permanent agency should be established with the necessary financial and technical means to meet the legitimate needs of the under-developed countries.

38. Dealing with various concrete points in the report, he said that the Economic and Social Council and its commissions had given some attention to the question of private investments and to the need for the under-developed countries to create a favourable climate which would attract foreign capital. That theory was a complete fallacy. The Council's report itself mentioned the factors which usually influenced private investors, and he pointed out that holders of capital often preferred to invest their money in their own country rather than to export it. Indeed, private investors were not in the least interested in the development of under-developed countries. They were concerned only to obtain the maximum profit with the minimum risk.

39. Moreover, as he had just said, under-developed countries were often reluctant to accept foreign investment. Exchange restrictions and obstacles to the transfer of capital often impeded the movement of private capital. The Economic and Social Council had not yet found any way of overcoming those difficulties, and it would therefore be unwise to lay excessive emphasis on private investment.

40. The delegation of Yemen considered that governments loans or loans encouraged by governments were a much better method of financing. The governments of capital-exporting countries should increase their loans for long-term projects and should underwrite loans granted by banks or private investors. Those governments would then obviously need an assurance that a particular project deserved a subsidy or an investment, and they should therefore ask an expert to study the project and authorize him to make suggestions to the capital-importing country.

41. Technical assistance was also of very great importance. Nevertheless, the Technical Assistance Board still comprised a very limited number of experts. The number of experts who could take part in the study of the problems of a given under-developed country should therefore be increased. Nevertheless, each under-developed country should be entitled to choose for itself the experts it needed.

42. Obviously the efforts of the TAB would be impeded if sufficient funds were not available to enable the under-developed countries to profit from the technical assistance offered them. For that reason his delegation would accept in principle the proposal submitted by the Pakistan representative (121st meeting) for the establishment of an international financial agency which would collaborate closely with the TAB.

<sup>1</sup> See *Official Records of the General Assembly, Fifth Session, Supplement No. 3.*



He thought that the Economic and Social Council should study that suggestion very closely. Moreover, he considered that the system of fellowships should be extended, and regretted that so few fellowships had been granted in the past.

43. In conclusion, he wished to make the following proposals: (a) Emphasis should be laid on investments by governments or by international agencies rather than on private investments. (b) Governments of capital-exporting countries should pay fuller attention to opportunities for investment in under-developed countries and should take all necessary steps to encourage their banks and private investors to make loans to such countries. In particular they should try to remove the obstacles which at present impeded the transfer of capital from one currency area to another. A further important measure would be for them to underwrite loans granted by banks or private investors for long-term projects. (c) Technical assistance should be promoted, and the number of experts available to help the countries concerned should be increased. (d) The number of fellowships should be increased. (e) International experts should be informed that the only criterion which should concern them was the interests of the under-developed countries. They should help such countries to achieve their economic independence and thus reduce the burden placed upon the industrialized countries. No political consideration of any kind should affect technical assistance. (f) Setting up a permanent international agency for financing technical assistance in under-developed countries. That machinery need not supplant the International Bank for Reconstruction and Development or the United States Export-Import Bank.

44. In conclusion, he wished to repeat his tribute to the Economic and Social Council and to the Secretary-General for the important progress achieved in economic development.

45. Mr. GORK (Turkey) wished to emphasize a few points to which his government attached particular importance.

46. It was clear from the debate that the urgent need to raise the standard of living of millions of human beings in under-developed countries was generally recognized. The reason for such action was not solely or even chiefly humanitarian. The problem was one of world-wide significance.

47. During its current session, the General Assembly would have to solve two fundamental and closely related problems: the maintenance of peace and the promotion of welfare. It would be impossible to maintain peace if the greater part of mankind continued to live in conditions of terrible poverty. Another conclusion arising out of the debate was that the measures for economic development already taken or proposed by the United Nations, however far-reaching they might be, were still very inadequate when compared with the immensity of the task to be accomplished.

48. Although technical assistance was essential for the solution of the problem, it was not sufficient in itself; financial assistance was also urgently needed. That was in fact the crux of the matter. Foreign capital was essential, but it could not be obtained under acceptable conditions, nor above all in sufficient quantities to meet the needs of economic development.

49. In his opinion, that shortage of capital made it imperative to decide which of the various categories of countries should be given priority and to distinguish between the relative urgency of the problems in the various economic regions of a single country. Some countries would be able to use capital only after a certain period of preparation, while others which had already reached a more advanced stage in their development would be able to increase their output rapidly if technical and financial assistance were provided simultaneously. They would then be able to continue their development without any further aid from abroad and they would even be able in their turn to assist other under-developed countries.

50. That was the principle his country had supported at the Technical Assistance Conference. Although Turkey was still in a difficult position economically, it had agreed in principle to assist other under-developed countries and had contributed \$182,000 to the Technical Assistance Fund.

51. He also emphasized the importance of regional co-operation and said that the word "region" should not necessarily be understood in its strictly geographical sense, but should be applied to a group of countries which were similar or complementary in structure.

52. In conclusion, he said that Economic and Social Council resolution 294 (XI) contained some very useful suggestions on the subject of financing. He hoped that it would be possible to put those suggestions into effect. He drew the attention of the Committee to the need to provide some security for international loans, for that would be in the interests of both the creditors and the debtors. The governments of creditor countries should make their contribution to such a measure by guaranteeing the interest on investments made in the under-developed countries.

53. Mr. ALVARADO OLEA (Ecuador) stressed the importance of the problem of the economic development of the under-developed countries, which affected 80 per cent of the world's population. What was needed was a world-wide solution which would be an effective and fruitful illustration of the principle of human solidarity. Such action was called for not only in the name of justice, but also because it was essential for the maintenance of world peace.

54. The documentation on the subject furnished by the Economic and Social Council, the specialized agencies and the group of experts provided the Committee with a starting-point for the measures which should be taken.

55. Taking his own country as an example, he emphasized that Ecuador, like the majority of the under-developed countries, was above all a producer of raw materials; hence its economy was closely dependent upon fluctuations in its foreign trade. Only a small part of its soil was under cultivation and mechanized agriculture was little used. The national income was very low, with the result that the population was undernourished and insufficiently provided with fundamental necessities: housing, clothing, etc.

56. The plan for the development of production in Ecuador included the modernization, mechanization and diversification of agriculture, the establishment of

a road network, improved sanitation, the elimination of illiteracy and the development of light industries, primarily to utilize the national raw materials. Much of the work provided for in the plan, however indispensable it might be for the development of production, was not directly profitable.

57. Ecuador had asked for the services of United Nations experts, who had helped it to organize its public finances, customs, a census, etc. His country wholeheartedly supported the Technical Assistance Programme which seemed to it to be a particularly useful form of international co-operation.

58. The drawing up of the plan was, however, only the first step: there was also the question of the financial means required to carry it out. National resources were not adequate to make the necessary investments; foreign capital must be called in. The outlook in that connexion was, however, less favourable than it had been in the past. As far as private capital was concerned, the various factors listed in paragraph 27 of the memorandum of the International Bank for Reconstruction and Development were an obstacle to such investments. With regard to loans by the Bank, its Articles of Agreement debarred it from financing the Ecuadorian development plan which, on the whole, resembled the development plans of most of the under-developed countries. The Bank was only authorized to finance profitable undertakings. It was therefore essential, in order to guarantee the financing of development plans, to have methods of financing which were not subject to such rigid rules; the Bank itself had pointed that out in paragraph 34 of its memorandum. Intergovernmental loans, particularly those granted by the Export-Import Bank, represented another source of possible financing, but that method could only have a limited scope and was moreover outside the framework of the United Nations.

59. It thus appeared that the report of the Economic and Social Council did not make concrete recommendations covering the problem of the financing of economic development as a whole. The methods of financing which it suggested, namely national savings, loans from the Bank and inter-governmental loans, were inadequate. The Council had been confronted by a difficulty which the Assembly must likewise face, and which was the crux of the problem. It was necessary to cut the Gordian knot, for if the under-developed countries were not enabled to finance other than profitable undertakings, their development might be halted.

60. Several proposed remedies for that situation had been placed before the Committee: it had been proposed, for example, that a new international body for the financing of economic development should be established, that the Articles of Agreement of the Bank should be changed, and that, on the basis of contributions by Member States, a common fund for the financing of development enterprises should be set up.

61. The fact that those proposals had been made showed that the overwhelming majority of the world's population was expecting a solution of the problem from the United Nations. He believed that the appropriate means of financing were those which had been employed in the past, generally after great catastrophes.

Now, however, they should be employed as an extraordinary means of preserving the peace.

62. The initiative in the matter, however, rested with the developed countries, and particularly with those disposing of resources which would enable them to assume the bulk of the expenses entailed by such expanded international assistance. It should be noted that the resulting development of world production would also redound to the benefit of the countries in that category and would compensate them for their sacrifices.

63. On the other hand, if it were decided not to apply the principles of President Truman's "Point Four", which had also been affirmed by the United Nations, the failure to do so would enable the destructive forces hostile to social order to take advantage of the despair of the suffering peoples, would be a confession of powerlessness to make human solidarity effective, and would be tantamount to saying that to wage war was less costly than to establish peace.

64. Mr. TSCHAND (Afghanistan) was glad to note that the General Assembly had classified the Technical Assistance Programme as the second most important item on its agenda. Afghanistan had from the beginning welcomed that new venture of the United Nations.

65. The economy of Afghanistan was basically agricultural, but the distribution of wealth there was more equal than in many other Asian countries. The contrast between the poorer and the richer classes was less striking in Afghanistan which, for an Asian country, was relatively prosperous, but desired nevertheless to develop its economy by encouraging certain light industries, such as the textile, sugar, fruit preserving and tanning industries, and also the exploitation of hydro-electric power. Development programmes had been prepared by the government and the United Nations had been asked to help. Following the visit in the previous March of a preliminary mission organized by the Secretary-General, an agreement had been signed between Afghanistan and the United Nations Preparatory Mission for Technical Assistance.

66. It had been decided to recommend to the Secretary-General and, through him, to the specialized agencies, that a technical mission consisting of experts in various fields should be sent to Afghanistan. The members of the Mission had unanimously recognized that Afghanistan urgently needed the technical assistance outlined in the agreement and that such assistance would be of particular value at the present stage of the development programme already being carried out by Afghanistan.

67. The head of the Mission had added that the Government of Afghanistan would more readily accept technical assistance from the United Nations than from a specific nation, because it believed not only that such assistance would be more disinterested and more advantageous for Afghanistan, but also that it would be maintained without interruption until the programme had begun to contribute effectively to the economic improvement of the country and until Afghan technicians were able to continue it.

68. Some of the experts referred to had already visited Afghanistan and had carried out investigations, particularly with regard to agriculture and mining.

69. The programme for the improvement of the breeding of karakul sheep, the improvement of pasturage and the control of sheep diseases, had already been launched under the direction of Mr. Deyoe, of the FAO.

70. A programme for the collection of essential statistics on the Afghan economy had been started. The Afghan Government had asked for the assistance of a statistical expert to carry it out.

71. Afghanistan had obtained expert advice regarding the development of coal mines and chromium mines. The possibility of settling farmers in the Helmand Valley, where an irrigation project was under way, had been discussed.

72. Consultations had taken place with the Ministries of Finance, Agriculture and Mines on the best way of improving public administration and budgetary methods. The government had also asked for experts on economic planning and public finance to be sent.

73. A geologist would shortly arrive at Kaboul to survey the oil fields.

74. Discussions were under way regarding measures for the establishment of a central headquarters of the Technical Assistance Services at Kaboul. It would comprise technicians of the United Nations, FAO, UNESCO, WHO and UNICEF. The government would place office space and living quarters at the disposal of those experts.

75. Regarding the financing of technical assistance, and particularly the financing of non-profitable development programmes, experience had shown that creditor countries were still guided by the attraction of the highest return at the least risk. The under-developed countries needed transport facilities, health services and, above all, education. The financing of such services did not yield any direct material profit, but it was precisely for those purposes that international programmes were necessary, since the activities of the Bank were for the time being confined to the financing of profitable undertakings.

76. The delegation of Afghanistan wished to know whether governments which were not members of the International Monetary Fund or of the International Bank for Reconstruction and Development could obtain technical assistance in the field of finance and foreign exchange.

77. In conclusion, he observed that although the technically advanced countries had now understood that it was in their own interest to develop the economy of under-developed countries, they had not yet reached agreement either on the methods to be followed, or on the order of priority of the programmes, despite the fact that the success or failure of the Technical Assistance Programme depended precisely upon a prompt solution of those questions.

The meeting rose at 12.35 p.m.