

# GENERAL ASSEMBLY

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**Chairman:** Mr. Jiří NOSEK (Czechoslovakia).

**Economic development of under-developed countries: (a) Financing of economic development of under-developed countries: report of the Economic and Social Council (A/C.2/L.162 and Corr.1 & 2, A/C.2/L.162/Add.1, A/C.2/L.164, A/C.2/L.168, A/C.2/L.169, A/C.2/L.170, A/C.2/L.171 and A/C.2/L.172) (*continued*)**

[Item 25 (a)]\*

1. U TINT SWE (Burma) thanked the members of the working group for the excellent document (A/C.2/L.170) they had submitted to the Committee. His delegation was happy to note that the draft resolution which the working group recommended, began by reminding all Member States of the obligations assumed by their governments under Articles 55 and 56 of the Charter. The representative of Brazil had recently said that those two Articles of the Charter should be always borne in mind by those who sincerely worked for friendly relations among nations. His delegation entirely agreed with that statement.

2. The political horizon was at present black but the Burmese delegation, while still realistic, retained its optimism and refused to believe that the present tension would last for ever or that the difficulties which now seemed insurmountable would not eventually be overcome. It refused to believe that set-backs in one sphere of international life must mean stagnation in other spheres. It was in that spirit of enlightened optimism and with faith in the fundamental principles of the United Nations Charter that his delegation would vote for the draft resolution before the Committee.

3. The Government of Burma had always taken a keen interest in the question of the financing of economic development of under-developed countries. At

the previous session, Burma had been one of the sponsors of a draft resolution on the subject in the Second Committee. It had also joined another delegation in sponsoring a draft resolution intended to secure the implementation of the recommendations contained in the report entitled *Measures for the Economic Development of Under-developed Countries* (E/1986). It was therefore with great pleasure that his delegation supported parts A and B of the draft resolution under discussion which, it considered, carried the work of the previous session to its logical conclusion.

4. His delegation would not withhold its assent from part C but had a number of observations to make on that part of the draft resolution. All independent countries, especially those which had recently won their independence, were naturally anxious to preserve their independence, both political and economic. Any attempt to interfere in the domestic affairs of a country or violation of its economic sovereignty would be contrary to the spirit of the Charter. Foreign private capital should never be allowed to become an instrument of foreign domination. Private investment should be synonymous with financial assistance; the flow of private capital into the under-developed countries should be for the mutual benefit of the investors and the countries concerned. His delegation assumed that the private foreign investments recommended in part C of the draft resolution would be made only after due negotiation providing the under-developed countries with adequate safeguards against pressure or interference of the kind he had mentioned.

5. Mr. NURADI (Indonesia) said that it was of great significance that each of the three parts of the working group's draft resolution reaffirmed the need for international action to deal successfully with the problem of financing the economic development of under-developed countries. Having subscribed to the United Nations Charter, his Government was anxious

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

to make it perfectly clear that by international action it meant action within the framework of the United Nations. In view of the tenor of the remarks made at the preceding meeting by the representatives of the developed countries, he felt that that point should be stressed.

6. Recent developments in international trade had dramatically demonstrated the inter-relationship of the economies of the various countries and the way in which events in one country affected the situation in others. A decline in the demand for raw materials, whether provoked or not, reduced artificially the purchasing power of producing countries and thus their ability to obtain industrial commodities. That was a truism but it helped to underline the urgency of the question under discussion.

7. Efforts to raise the economic level of the under-developed countries were hampered by a painful lack of resources. The pooling of all available resources, by the organization of international co-operation on the widest possible basis was the only method of solving the problem. His delegation fully subscribed to paragraph 6 of part A of the draft resolution before the Committee which requested the Economic and Social Council "to give special attention to the problem of international financing of economic and social development through international co-operation within the framework of the United Nations". His delegation understood that paragraph to mean that international co-operation under the auspices of the United Nations should be given priority over other methods of promoting the economic development of the under-developed countries. He agreed with the United Kingdom representative that international co-operation need not preclude all other forms of action. His delegation was, however, opposed to partial solutions of limited international scope, which did not take into account the economic interdependence of all countries and the limited availability of resources.

8. His delegation had consequently followed with some concern the work of the Consultative Assembly of the Council of Europe which, during its recent session at Strasbourg, had considered a plan for the development of raw material and foodstuff production in overseas territories having constitutional links with States Members of the Council of Europe. He wondered whether underlying the plan there was not a negation of the inter-dependence of the economies of the world. He further wondered whether the plan, if applied, would not divide, and thus weaken, the world's already limited resources. He feared that the politically independent under-developed countries of Latin America, the Middle East and Asia might remain economically backward while the metropolitan countries used all their resources to develop their dependent territories. In making those observations, his delegation was not prompted only by self-interest; it was also concerned with the political emancipation of the Non-Self-Governing Territories.

9. There were other dangers inherent in the Strasbourg proposals, upon which his delegation proposed to comment in detail at a later stage in the discussion.

10. His delegation realized that it was impossible at the present session to establish the machinery necessary for the efficient operation of the special fund and the international finance corporation and would therefore

vote for parts A and B of the draft resolution, which would contribute to the early establishment of those two bodies. It would also support part C, and attached particular importance to the request that the Secretary-General should prepare an analysis of the international flow of private capital.

11. Mr. FACIO (Costa Rica) said that his delegation would vote for the draft resolution recommended by the working group. He would explain his delegation's reasons for voting for each of the three parts of the draft resolution, as the scope and the aim of those texts might depend on the construction placed upon them. For example, at the previous meeting the representatives of various industrial countries had clearly indicated that they did not believe in the feasibility of a special fund for financing non-self-liquidating projects on favourable terms. They had said that they agreed to studies being undertaken on the subject, but that their governments were opposed to the establishment of such a fund in the present circumstances. Many of them had, on the other hand, placed special emphasis on part C which was concerned with measures for stimulating the international flow of private capital.

12. The Costa Rican delegation viewed the matter from a completely different angle. In its opinion, the establishment of a special fund was the most effective of the means considered for assisting the economic development of the under-developed countries, and was likely to contribute most to the integrated economic development of the under-developed countries. He fully agreed with the Mexican representative's statement in the general debate (200th meeting), that private investment was not the ideal, or even the most effective, means of solving a problem of such magnitude as that set by the poverty in which the greater part of the inhabitants of the under-developed countries lived.

13. He quoted passages from the speech on the economic development of the under-developed countries delivered before the General Assembly by the head of the Chilean delegation,<sup>1</sup> Mr. Santa Cruz, and recalled that during the general debate the Costa Rican delegation had explained that it did not deny the value of foreign private investment (202nd meeting). Such investment could contribute greatly to the economic development of the under-developed countries, provided that it obeyed certain rules, did not serve as a pretext for political pressure and did not result only in the creation of a supply of cheap raw materials for the industrial countries. Any objective study of the main currents of investment in Latin America showed that only in rare cases had foreign capital genuinely helped to improve the lot of the inhabitants of the under-developed countries, although it was fair to say that the position in that respect had improved in recent years.

14. His own country could furnish examples of the different forms foreign investment could take, some favourable and others unfavourable, to the economic development of the country in which they were made. As an example of a desirable investment, he cited the case of a group of American veterans who had settled in Costa Rica with their families and had introduced poultry farming on a large scale, using the most modern methods. The triple contribution of capital, techni-

<sup>1</sup> See *Official Records of the General Assembly, Seventh Session, Plenary Meetings*, 379th meeting.

cal knowledge and labour was bound to have a beneficial effect on the national economy.

15. Among harmful investments, he cited the case of an Ohio tyre-manufacturing company which had had a factory built in Costa Rica to produce special fabrics. Although the operations of the factory might appear to raise no difficulties, they in fact involved a number of legal and economic problems. In the first place, it was clear that, by occupying a portion of the national territory, using national labour and mobilizing a sector of the national economy, the foreign firm was practising "economic occupation". Secondly, the company distributed its operations unfairly, reserving the lowest-paid jobs for the "economically occupied" zone; for example, its workers in Ohio earned on an average fifteen times as much as those it employed in Costa Rica, though both were engaged in producing the same tyre. Thirdly, the company sought to keep wages very low in the "occupied" region on the grounds that it had to meet competition from other under-developed countries. Lastly, the "economic occupation" was accompanied by the usual outward signs of occupation, such as racial discrimination, the creation of private residential zones and the posting of notices in a foreign language, which had highly undesirable psychological effects. That was a good illustration of the kind of investment that should be avoided. Some people would argue that that form of investment was also a source of dollars for the country. Military occupation would also constitute a source of dollars, but no one would dream of regarding it as a rational method of economic development.

16. In speaking of private investment, it was necessary to define the aims to be achieved. If the objective was to raise the standard of living of the under-developed countries, to eliminate the differences between the peoples of the world which were the cause of social tensions, "economic occupation" was the worst conceivable solution, since it was based on the exploitation of the work of some people for the benefit of others. The only possible consequence of that form of investment, if it continued to develop, would be a further accentuation of the existing disparity between the economic levels of the various countries of the world, a disparity the gravity of which was pointed out each year by the Secretary-General.

17. He remarked that he had chosen two extreme cases. Private investment took many other forms which were more or less acceptable, depending on the degree they approximated to one or the other of the cases he had quoted. However that might be, the Costa Rican delegation considered, as it had already stated in the general debate, that private investment was not appropriate in the case of public utilities. Nor were the interests of the under-developed countries served by attracting owners of capital in search of cheap labour. In Costa Rica, the production of electricity, which was in the hands of a foreign company, combined those two disadvantages. The concession was run in a profit-making spirit which was not calculated to promote the economic development of the country, and its only interest was to keep the level of wages very low. A Costa Rican foreman earned the equivalent of \$70 a month, while an assistant engineer copying plans in the New York offices received \$200 a month. Nevertheless, it was the Costa Rican consumer who paid for both salaries,

since he paid the entire cost of the service supplied to him. Thus, as time went by, wealth accumulated in one country, and poverty deepened in the other.

18. The Costa Rican delegation was of the opinion that the best solution for the under-developed countries was to mobilize domestic savings and to finance private undertakings and public development agencies with domestic capital. To do that, they had to obtain fair prices for the exports which constituted their main source of income. The Argentine draft resolution was based upon that idea, and the Costa Rican delegation accordingly fully supported it.

19. None the less, foreign capital could play a very valuable part in the economic development of the under-developed countries, if it observed the conditions he had just set forth. One excellent form of investment had been all too little used—loans granted to local private undertakings, either directly or indirectly through the banking or development agencies of the country concerned. The latter method was better, as the investor dealt with responsible bodies and those bodies could use their knowledge of local conditions to direct capital into the sector of the national economy where it was most needed. The foreign investor received interest on his capital and at the same time contributed to the establishment of new productive undertakings, without becoming the owner.

20. Explaining the economic view most widely held in his country, he stated that, in general, it was considered that the best way to preserve the democratic nature of the national economy was to increase the number of owners of businesses. The Costa Ricans believed that it would be possible for them, under a general development programme, to give full scope to private enterprise while autonomous State agencies would provide essential services such as credit, the production of electric power and public transport, and would be responsible for controlling prices and encouraging production. Already thousands of farmers were growing maize on their own account but the State regulated and protected their work through autonomous agencies which kept prices at a fair level, distributed seed, and financed the purchase of equipment. That partnership of the State with the private producer brought the national economy to its highest degree of efficiency and had the further advantage of giving the workers, who were conscious of the part they played in the national economy, a higher sense of their own dignity, and of making them truly free men who could not be deceived by totalitarian demagoguery, whether of the right or the left.

21. The proposed international finance corporation would undoubtedly be an excellent way of financing local private undertakings. The Costa Rican delegation would therefore support part B of the draft, and it hoped that the project would be put into execution in the very near future.

22. Mr. DOMINGUEZ COMPANY (Cuba) said that even though his own delegation's draft had been altered in the process, the working group had drafted a text which was acceptable to him inasmuch as it covered the questions and principles that had prompted his delegation to submit its earlier draft. The new text marked an advance—albeit hesitant, and he would have liked a more determined step forward—towards the establishment of the special fund and the international

finance corporation. Secondly, the text did not rule out what the original Cuban draft had suggested—the possibility of convening a conference of interested governments in 1953.

23. Mr. BOTHA (Union of South Africa) said that when he had examined the admirable document prepared by the working group, he had thought it would be unnecessary for him to explain why he was going to vote for it. But statements made by certain members of the Committee compelled him to comment on the texts submitted, so there should be no misunderstanding with regard to his delegation's attitude.

24. The South African delegation would vote in favour of part A of the draft resolution, but that vote should not be taken as showing that it had changed its position with regard to the establishment of a special fund or that it approved of the proposed machinery. It must explain that it was the understanding of the delegation of the Union of South Africa that paragraph 6 would be interpreted in the broadest possible terms as had been pointed out by the representatives of Chile, the United States and the United Kingdom at a preceding meeting.

25. Similarly, its vote for part B in no way prejudged the result of the work undertaken by the International Bank for Reconstruction and Development.

26. On the other hand, his delegation welcomed part C of the draft resolution, since it stressed the importance of private investment in the economic development of under-developed countries. The South African Government took the greatest interest in that matter and thanked the four delegations which had taken it upon themselves to draw the Committee's attention to it. While he was not particularly attached to paragraph 3, he was sure that the studies to be undertaken in paragraph 2 would serve as a most useful purpose.

27. Mr. BAUER PAIZ (Guatemala) said that his delegation would vote for all three parts of the draft resolution submitted by the working group.

28. With regard to part C, he must say that Guatemala's experience with foreign investment had not always been a happy one. The Costa Rican representative had exhaustively analysed the dangers of such investment to under-developed countries; the Guatemalan delegation entirely agreed. Despite all the steps taken in Guatemala to gain foreign capitalists' confidence, they usually re-exported their profits and capital and were not concerned with the promotion of the country's economic development. Accordingly, a reservation might be inserted in paragraph 3 of part C, to cover the misgivings of the governments of the under-developed countries. To that end, he was submitting an amendment (A/C.2/L.172) to the latter part of paragraph 3, reading as follows: "so that it may effectively contribute to the harmonious and adequate integration of their economies and to their economic and social development".

29. Mr. COHN LYON (Dominican Republic) said that his delegation supported the draft resolution submitted by the working group. The provisions of part A should not in any way limit or restrict the interest to be taken in other methods of financing, in particular in financing by private capital. Recourse to private investment of domestic or foreign origin should in no

way preclude the exercise of all sovereign rights by the State concerned. He had already mentioned during the general debate (201st meeting) the place given by his Government to private enterprise in the development of the country and the measures adopted to protect domestic and foreign capital, to attract it and to use it in the country's best interests.

30. Mr. IMRU (Ethiopia) thought that part C of the draft resolution somewhat weakened parts A and B. The wording of part C showed that some delegations still thought that private investment was effective in solving the urgent problem of the development of under-developed countries and that the special fund and the international finance corporation were not practical means of ensuring the financing of economic development in existing circumstances.

31. He himself felt that private investment should be encouraged. Nevertheless, Ethiopia had found by experience that that type of financing could not effectively ensure rapid economic development, because private capital sought at the same time security and high returns. Private investment could be effective only in an economy which was already strong and prosperous.

32. The Ethiopian delegation, accordingly, preferred the solutions proposed in parts A and B of the draft resolution. It would, however, vote for part C also.

33. Mr. BETETA (Mexico) reminded the Committee that he had spoken about investment in Mexico during the general debate (200th meeting). He would not, therefore, repeat the arguments in support of the Mexican contention that private investment should contribute primarily to the economic and social development of the country concerned, or, in other words, to the raising of its inhabitants' standard of living. That was the justification for legislation to regulate private investment. Subject to that principle, the Mexican delegation would vote for all three parts of the draft resolution.

34. Mr. ABDELRAZEK (Egypt) thought that part C of the draft resolution gave rise to a misunderstanding that should be dispelled. He reminded the Committee of his recent statement in which he had explained the difficulties hampering private investment. They fell into four categories. First, there were fiscal difficulties. Second, some enterprises wishing to set up undertakings abroad were not always successful in obtaining sufficient capital. Third, some under-developed countries did not regard foreign investment favourably, since they feared foreign interference in their economic and political affairs. Fourth, the difficulties were multiplied by the obstacles placed by certain under-developed countries in the way of the repatriation of capital and profits. That would suffice to show his delegation's position clearly enough. After hearing statements from some of the delegations of the highly industrialized countries, he could not but express a fear lest the United Nations' activities in the field of the financing of economic development might aggravate yet further the general disappointment.

35. Mr. MADRIGAL (Philippines) said that his delegation found the draft resolution submitted by the working group acceptable. He would confine himself to a few comments on the financing of economic development of under-developed countries. The best solution, in his opinion, lay in the conclusion of agreements be-

tween the governments of the highly industrialized countries and those of the under-developed countries. It was for the governments concerned to distribute the capital required for the development of private industry. The governments of countries of investment should take precautions to defend them against exploitation by private capital. Thus, the Congress of the Philippine Republic had taken steps to protect the Philippine workers by fixing a minimum wage and by prescribing the working conditions in the large mining and other enterprises financed by foreign capital; similarly, with regard to revenue on investment, governments might by appropriate legislation prevent capitalists from obtaining excessive profits at the expense of the economy of countries of investment.

36. Every possible step should be taken to ensure the economic development of under-developed countries. Accordingly, he would vote for the draft resolution submitted by the working group.

37. The CHAIRMAN put the draft resolution submitted by the working group (A/C.2/L.170) to the vote. The resolution comprised three parts, A, B and C.

38. He first called for the vote on part A.

*Part A of the draft resolution was adopted by 46 votes to none, with 5 abstentions.*

39. The CHAIRMAN put part B to the vote.

*Part B of the draft resolution was adopted by 46 votes to none, with 5 abstentions.*

40. The CHAIRMAN then invited the Committee to vote on the amendment submitted by the Guatemalan delegation (A/C.2/L.172). The purpose of that amendment was to amend part C of the draft resolution (A/C.2/L.170).

*The amendment was adopted by 44 votes to none, with 7 abstentions.*

41. Mr. ENCINAS (Peru) said that the reason why he had abstained from voting on the Guatemalan amendment was not that he disagreed with the point of view it expressed, but that, in his opinion, it merely repeated what had already been said in all the other resolutions on the matter and did not contribute anything new.

42. The CHAIRMAN put the amended text of part C of the draft resolution to the vote.

*Part C of the draft resolution was adopted by 45 votes to none, with 6 abstentions.*

43. Mr. ARKADYEV (Union of Soviet Socialist Republics) wished to state why he had abstained from voting on the three parts of the draft resolution presented by the working group. He could not agree with those representatives who had placed their hope in the establishment of a special fund or an international finance corporation. He recalled that similar international institutions, such as the International Bank for Reconstruction and Development and the International Monetary Fund, had been a disappointment to the Members of the United Nations. There was therefore no reason to suppose that the new institutions proposed by the Committee would not, like the Bank and the Fund, become instruments of American capitalism. The USSR delegation was thus unable to support the draft resolution. Since, however, it did not wish to hinder projects for the economic development of under-developed countries, it had merely abstained from voting.

44. He took the opportunity to point out that the Committee had not considered it important that the resources of under-developed countries were at present being used for military purposes. Those resources should be used to improve the lot of the people of the under-developed countries, but that was not possible under the present régime of exploitation being imposed upon those countries. The Committee had likewise been unconcerned over the persistence of the policies of exploitation carried on by the administering Powers in the Non-Self-Governing Territories. It appeared from information furnished by the International Monetary Fund that the United Kingdom had contracted a debt of more than \$10,000 million with British territories and that its obligations towards other countries in the sterling bloc amounted to \$7,880 million. He said that the shortage of foreign exchange in under-developed countries led those countries to import foreign capital under conditions similar to actual slavery. The imperialist Powers were meanwhile making enormous profits. From 1938 to 1951, for example, United States corporations and banks had accumulated profits of about \$12,500 million by exploiting under-developed countries, and investments in Latin America had produced profits amounting to 15 per cent of the invested capital.

45. He regretted that the Committee had apparently forgotten the principles not only of the Charter but also those embodied in resolution 368 (XIII) of the Economic and Social Council. He considered it unfortunate that the Committee had failed to see that the financing of the economic development of under-developed countries should serve principally to raise the standards of living of the inhabitants of those countries. The Committee had likewise forgotten that the national income of under-developed countries should be used to meet the needs of those countries and not be directed towards the monopolies exploiting them. The under-developed countries should moreover be able to engage in free trade with the People's Democracies and thereby be able to free themselves from exploitation by the capitalist monopolies. There too, however, the Committee had been unwilling to concern itself with conditions in the under-developed countries.

46. The CHAIRMAN invited the members of the Committee to consider the draft resolution submitted by the Argentine delegation (A/C.2/L.162 and Corr.1 and 2) and the amendments relating to it (A/C.2/L.169).

47. Mr. HUEZO (El Salvador) said that the Latin-American delegations were prepared to support the draft resolution submitted by Argentina, because they approved of its general principles.

48. The delegation of El Salvador, however, together with the delegations of Costa Rica, Guatemala, Honduras and Nicaragua, had submitted an amendment (A/C.2/L.169) proposing that a new paragraph should be added to the Argentine draft. That paragraph would recommend that governments should conclude international agreements relating to primary commodities for the purpose of (a) ensuring the stability of the prices of the said commodities and (b) safeguarding the continuity of the programmes of economic and social development of the countries which produce such raw materials.

49. He believed that prices on the world market should be stabilized at more equitable levels, as that would

protect the producers of raw materials from abrupt changes that had an unfavourable effect on the terms of trade. He was convinced that commodity prices could be stabilized and the continuity of economic development programmes ensured if international agreements on primary commodities were concluded. He referred to the International Wheat Agreement which had been signed by forty-two governments, including thirty-eight representing importing countries. That Agreement had been concluded at a time when two wheat-exporting countries, Canada and Australia, had large export surpluses and other countries wishing to import wheat had been unable to do so because of financial difficulties. The operation of the Agreement had been satisfactory for importers and exporters, and he believed that similar agreements could become more widespread in the future.

50. Referring to paragraph 4 (a) of the Argentine draft, he stressed the necessity of maintaining an equitable relation between the prices of primary commodities and those of capital goods and other manufactured articles. He agreed with the Argentine representative. He expressed the wish that countries, such as the United States, which had established a domestic system of price parity for the benefit of farmers, would adopt the same attitude when dealing with other countries. That was the purpose of the Argentine draft resolution.

51. He then pointed out that paragraph 4 (b) of the Argentine draft mentioned the production of any synthetic or substitute materials that unnecessarily affected the international demand for natural primary commodities. In that respect also, he unreservedly agreed with the representative of Argentina. He recalled that El Salvador had been compelled to stop growing some type of plants because it could no longer compete with certain chemical dyes and that the export of those plants at one time represented 60 per cent of El Salvador's exports. He also recalled how the production of synthetic rubber had imperilled the countries producing natural rubber. The production of synthetic fertilizer had in the same way been harmful to Chile as a producer of natural fertilizer. Competition from the large quantities of synthetic textile fibres flooding the world market had caused equally serious difficulties to the countries producing natural fibres. He said also that a process now existed for substituting bagasse for wood in the manufacture of paper pulp. He did not believe that the use of bagasse to replace wood was likely to injure the trade of countries like Canada or Sweden with diversified economies, but he stressed that the situation might be otherwise in the case of less advanced countries in the process of economic development.

52. He wished to make clear that he was in no way taking a stand against technical progress any more than had the representative of Argentina in submitting his draft resolution. That draft merely recommended that Member States should refrain, unless unavoidably required by national security in times of war and without prejudice to technological research and progress, from encouraging the production of synthetic materials. The Argentine representative had intended by that provision to do nothing more than express his desire to see every means used to ensure world economic stability. Technical progress might necessitate readjustments in the

economies of some countries, but such readjustments would take some time.

53. Mr. Huezo hoped that the representative of Argentina would accept the amendments proposed by the delegations of El Salvador, Costa Rica, Guatemala, Honduras and Nicaragua, because those delegations had wished merely to supplement the Argentine draft resolution by including in it some matters which had not appeared to them to be sufficiently precise in the original text.

54. Mr. DIAS CARNEIRO (Brazil) said that his delegation was in complete agreement with the Argentine draft resolution and with the amendments appearing in document A/C.2/L.169. He wished, however, to emphasize the difficulties that would be encountered in putting the draft resolution into effect.

55. Unless there was a continuous and steady flow of capital from foreign governments and foreign private investors, the under-developed countries would be unable, except by exporting foodstuffs and raw materials, to obtain the foreign exchange required by them for the purchase of the necessary foreign goods indispensable in connexion with their economic development and for servicing their foreign debt.

56. If it could be assumed that the balance of payments of under-developed countries could be maintained in equilibrium for a long time, those countries would still be unable, without a large volume of investment, to finance their economic development except through a surplus of exports. Those countries could bring about such a surplus either by reducing their imports of non-essential commodities while maintaining exports at the same level, or by increasing their exports while maintaining their imports of non-essential commodities at the same level, or by increasing their exports while reducing their imports of non-essential consumer goods. They could not, however, choose either the first or third alternative, because the reduction of imports would slow down their economic development, and a decrease in consumption would result in lower standards of living and impair the well-being of the population. Those countries could therefore adopt only the second solution, but they could not easily increase their exports, because the demand for raw materials and foodstuffs was inflexible, and the buyers of those commodities were inclined to control prices through monopolistic practices.

57. If, on the other hand, the under-developed countries, whose populations wished to attain a higher standard of living, did not succeed in achieving a satisfactory balance of payments, their situation would become tragic. It was to avoid that danger that for the last nine or ten years the under-developed countries had been asking that the prices of their exports should be fixed in relation to their imports. If such prices were introduced, the under-developed countries would have additional and permanent financial resources, or would at any rate be able themselves to finance their economic development by means of their income from exports. That was an extremely difficult goal to reach, for it must be remembered that the developed countries were hardly inclined to adopt that reasoning. Furthermore, the under-developed countries desired to remedy the position more quickly than the circumstances of the economic situation would allow. Lastly, the terms of

trade would certainly be controlled by constant negotiation, in which the producers of manufactured goods would probably have a preponderating influence. Moreover, it was always very difficult to decide on a base year for calculating the terms of trade index. He explained the reasons for that difficulty, and added that, in the case of indexes relating to shorter periods, the base year would doubtless be determined by means of bilateral negotiations.

58. In spite of all the obstacles he had mentioned, he would vote for the Argentine draft resolution and for the amendments submitted in document A/C.2/L.169.

59. Mr. TAYLOR (Canada) made a number of observations on the preamble to the Argentine draft resolution, which drew attention to the following facts: the terms of trade had an important bearing on the national incomes and economic well-being of all countries, particularly countries whose prosperity largely depended on international trade. Furthermore, the countries whose economy was chiefly based on the production of raw materials were very vulnerable to fluctuations in the terms of trade. Lastly, the diversification of the economy might reduce the amplitude of such fluctuations and diminish their effects.

60. While approving that statement in principle, he remarked that the diversification of production did not necessarily give greater stability to economic activity. It was helpful only if it had a sound basis. If not, it might rather accentuate than diminish economic fluctuations. The economic prosperity of Canada, for example, depended on the activity of the industries which supplied primary products. For that reason Canada had always striven to increase the production of agriculture, the timber industry and the mines. Experience showed that the diversification of the economy was no substitute for a constant effort to increase the output of the basic industries.

61. The Argentine draft resolution took into account the effects which price fluctuations might have on the economies of countries in the process of development. It should, however, be noted that fluctuations of that kind might also have severe repercussions on the economy of the developed countries, which in recent years had experienced great difficulty in achieving a satisfactory balance of payments. Their real national income had undergone the effects of sharp increases in the import costs of raw materials and essential food products.

62. The prices of raw materials did not all follow a common pattern. While it was true that on the average the prices of raw materials were three times higher than in 1938 and 15 per cent lower than the record high level they had attained after the war, some of them had undergone more marked fluctuations.

63. As the representative of Australia had pointed out, many countries in the process of development imported raw materials as well as exported them. In cases of that kind, the terms of trade did not follow any common pattern. Abrupt fluctuations in the terms of trade were harmful not only to the countries adversely affected, but also to the countries which derived temporary benefit from them. It would be desirable for all countries to collaborate in preparing measures calculated to reduce the amplitude and moderate the violence of such fluctuations.

64. In the longer run, productivity and real costs must be considered as well as the prices of basic products. Thus, the price of Canadian wheat on the world market was not much more than twice what it had been before the First World War; the unit prices of the things that went into the cultivation of wheat, on the other hand, were four or five times higher than at that time. In other words, the arithmetical terms of trade had moved against the Canadian wheat grower. Nevertheless, the standard of living of the Canadian wheat grower was higher today than in 1912 or 1913. That improvement was due to a considerable increase in the productivity of wheat cultivation. The benefits of that increased productivity had accrued in part to the grower in the form of a higher real income, and in part to the consumer in the form of lower relative prices. The same was true for other nations. As productivity increased, the real terms of trade almost certainly improved, even though the arithmetical terms seemed to have deteriorated.

65. Proceeding to the consideration of paragraph 4 (b) of the Argentine draft resolution, he remarked that scientific research was the primary factor in progress and thus helped to raise standards of living. While some people benefited from technological progress, others suffered from it. Owing to the rapid increase in the demand for products of all kinds, it would be foolish not to take advantage of scientific progress. The benefits it provided might not be fairly distributed in the beginning, but in the long run all countries would profit from them. Those problems could not be resolved by restricting technological progress. On the contrary, it was necessary to devise an adequately flexible and adaptable economic structure. Although it could not support the ideas implicit in paragraph 4 (b), the Canadian delegation approved the general principle that, except for imperative security reasons in time of war, Member States should avoid placing severe, discriminatory restrictions on imports and replacing natural products by synthetic ones. It recognized that, in order to conform to the principles set forth in the Charter of the United Nations, all countries should take into account the effects which their policy might have on the welfare of the peoples of other Member States.

66. If the terms of trade of many countries supplying primary products had deteriorated, it was owing, in particular, to the fact that those countries had placed restrictions on imports. While in many cases those measures were perhaps unavoidable, they helped to increase the prices of imported products as well as domestic production costs. Thus, the terms of trade of many countries had deteriorated as a result of the failure to establish free international trade on a multilateral basis. Many reports, indicated that in the next twenty or thirty years the world would be needing increasingly large amounts of foodstuffs and raw materials and that the real terms of trade of the countries able to supply those products would quite certainly improve.

67. In virtue of the law of supply and demand, prices were constantly changing and they thus served as a guide to producers and consumers. While it was true that one had the choice between a system of freely developing prices and a controlled economy system, experience showed that the regulation of prices made the economic structure more rigid and was not con-



ductive to increased productivity. It might well be desirable to adopt measures to moderate the violence of price fluctuations, but excessive rigidity must be avoided. Flexibility and adaptability were essential characteristics of a developing economy.

68. So far basic commodity agreements were concerned, he could not approve the proposal presented by the delegations of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua in their amendment. The proliferation of such agreements would have the effect of making the international price structure too rigid. The Government of Canada was not opposed to basic commodity agreements in principle and regarded them as a possible means of modifying the violence of price fluctuations. It was prepared to participate in the work

of commodity study groups and to adhere to agreements of that kind, provided they related to specific products, allowed to some extent for the free play of economic forces and gave promise of satisfactory results. A further condition would be that the principal countries concerned should be parties to such agreements. In any event, the conclusion of basic commodity agreements could not be regarded as a panacea.

69. For all those reasons, the Canadian delegation could not support the passages in the Argentine draft resolution which, implicitly or otherwise, provided for the establishment of fixed price relationships and restraint upon scientific progress.

The meeting rose at 1 p.m.