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Chairman: Mr. Leo MATES (Yugoslavia).

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

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

[Item 26]*

1. Mr. DJERDJA (Yugoslavia) stressed the importance of the question of the financing of the economic development of under-developed countries. All the general world economic problems, such as unemployment, fluctuations in the prices of raw materials, and monetary reserves, had been studied by the United Nations and it had been found that in many cases the problems could be solved only if the economic position of the under-developed countries were improved. Moreover, since economic and political questions were closely interrelated the economic development of under-developed countries was also essential to the maintenance of world peace.

2. Analysis of the question of the economic development of under-developed countries in relation to such matters as land reform and trade problems, showed that the position of those countries could not be improved without alterations in their internal economic structure and the financing of new enterprises in their territories.

3. There was a vicious circle. The under-developed countries were poor because they were economically under-developed and were under-developed because they lacked capital, i.e., because they were poor. In other words, they were under-developed because they were primarily agricultural. In order to improve their position, the under-developed countries had to modernize their agriculture and develop their industry, but were unable to do so because their economies were essentially agricultural.

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

4. It was essential that the under-developed countries should be able to embark on a process of rapid economic development. However, the pace of economic development was much faster in countries with developed productive forces i.e., in the industrialized countries. Thus, the under-developed countries would continue to vegetate and their position in international trade would further deteriorate if the rate of their development was not more rapid than that of the industrialized countries. In order to solve the problem, it would be necessary not only to help the under-developed countries in the initial stage of their development, but also to assist them to take measures to accelerate their economic development. Extraordinary measures were therefore necessary. There must be some intervention in the natural process of development and the economies of the beneficiary countries would have to be changed to a certain extent by measures acceptable to them.

5. In the implementation of such a policy of rapid economic development, the planning of investments was essential. The use as well as the quantity of investments had to be taken into account. Countries in the process of economic development should take measures to increase their available capital and direct their efforts towards projects which would have the most important bearing on their future economic development. With regard to investment and domestic savings policies there was a danger that an unduly great lowering of the standard of living might lead to restrictions of the domestic market, thus paralysing new industries at the outset, since they would be unable to operate profitably owing to the low purchasing power of the population. Plainly the under-developed countries could not increase their savings at the expense of their standards of living. They could not develop their economies solely by means of domestic savings; foreign capital was needed. Such a transfer of capital from the developed to the under-developed countries would also be in the interest of the former countries, which would have a wider market for their products as the productivity of the under-developed countries increased.

6. In a world which was becoming smaller and smaller, the need for international economic co-operation was increasingly urgent. The international capital hitherto available for the under-developed countries had been insufficient and often unable, owing to its very nature, to solve the problem of the economic development of those countries. His delegation believed that every source of capital which could promote economic development should be mobilized. On the other hand, investments which aimed at economic exploitation and political interference, under the pretext of assisting economic development should be avoided. Such investments would be contrary to the purposes of the United Nations.

7. Referring to the genesis of the proposal to establish a special fund, he mentioned the preliminary work

of the Sub-Commission on Economic Development, the amendment (A/C.2/L.7) submitted by Yugoslavia to the General Assembly at its fourth session (99th meeting), the draft resolution submitted by Egypt, Iraq, Lebanon, Syria, Yemen and Yugoslavia (A/C.2/L.35)¹ to the General Assembly at its fifth session and the report of the committee of experts on a Special United Nations Fund for Economic Development (E/2381)² which had been circulated to the Committee. The principles on which the proposal to establish a special fund was based had originally been criticized but were now generally accepted. Nevertheless, some questions still gave rise to differences of opinion. Two questions in particular should be studied with special care during the debate.

8. The first was whether it was wise, from the political and economic points of view, to subordinate the financing of economic development to disarmament. Armaments were essential since a possible aggressor might be tempted by a country's weakness. His delegation believed that economic development and national defence must be undertaken concurrently; in that connexion, he referred to the work of economic development accomplished by Yugoslavia in recent years. The economic development of the under-developed countries was not wholly dependent on outside assistance, but that assistance was necessary to accelerate economic development and to create international political and economic solidarity. In the present situation, international assistance for economic development could not be made dependent on disarmament; to do so might endanger world peace.

9. The second question to be decided was that of financing the fund. Obviously the fund must be established on solid and lasting foundations, but whether the requisite money was now available was dubious. The committee of experts believed that the Special Fund could start with a capital of 250 million dollars, or less than .01 per cent of the United States national income and less than .03 per cent of what the members of NATO were currently spending on armaments. Such a modest sum would not allow of large-scale undertakings, but the establishment of the fund would do something to improve international political relations. That that amount would subsequently prove inadequate was shown by experience with technical assistance. More extensive financing utilizing savings on armaments could be envisaged at a later stage. Economic assistance by the more highly-developed countries would enable those countries to expand international trade and increase their domestic production. The Member States would place their economic strength at the service of other countries to promote peace, not to gain political or economic advantage.

10. The Committee could decide at the current session to set up the Special Fund in the near future. The effect of such a decision would be mainly moral, since some time would certainly be required before the wealthier countries stated that they were ready to contribute to it. The interval, however, might be used for the requisite preparatory work, which would facilitate the efficient operation of the fund when it was established.

11. He wished to make a few suggestions which might subsequently be submitted in the form of a draft res-

olution. The fund's statutes should be worked out on the basis of the experts' report and the comments made during the discussions in the Economic and Social Council and the Second Committee. The fund's establishment should be duly publicized in order to acquaint governments with its significance. One or more representatives might be appointed for that purpose to visit both the developed and the under-developed countries. Furthermore a number of measures of an organizational character were required and should be considered by the Economic and Social Council. The Committee should start the necessary preparatory work to enable the General Assembly at its following session to consider the immediate calling of the conference to set up the fund.

12. The colonial problems discussed by the Fourth Committee were closely linked with economic and financial problems. Military and political measures alone could not achieve peace and preserve national sovereignty and economic, political, national and racial equality among nations. Healthy economic and social conditions must also be achieved. The time had come for the United Nations to take more extensive action to introduce and maintain decent living conditions. No country could live in isolation. The system of collective security had proved itself an efficient instrument for repelling aggression. The time was drawing near when broad collective action could be undertaken to eliminate disputes and threats to peace as they appeared. That was the long-term task of the United Nations. It should now help peoples to attain or strengthen their political independence, and, to that end, should contribute to their economic development. The principle of the sovereign equality of nations should be applied in lending aid, for the purpose of raising living standards throughout the world. That was the manner in which the Yugoslav delegation viewed the fund's role and that explained its special interest in it.

13. Mr. ZELLERBACH (United States of America) proposed to state as clearly as possible his Government's position on the economic development of under-developed countries as a whole and on the question of the establishment of an international fund for economic development in particular.

14. The United States Government was fully alive to the need for improved living standards in large parts of the world and would continue to support the efforts of the under-developed countries to achieve better conditions of life. However, it was not at present prepared to make any contribution to a new international development fund, and did not believe that any further steps could usefully be taken at that time looking to the establishment of such a fund. Efforts at the present time should be concentrated on making more effective use of existing programmes and sources of financing economic development. His country strongly desired to join with all countries in an effort to lift the burden of armaments and to make available to an international fund for economic development a portion of the savings from disarmament.

15. It would be misleading to construe his Government's opposition to a new development fund as more than an objection to embarking on a particular method of financing at the present time: the United States took second place to no nation so far as support for less-fortunate countries was concerned. The American people knew that economic and social improvement was essential to the promotion of peace and freedom, and

¹ See *Official Records of the General Assembly, Fifth Session, Annexes*, agenda item 28.

² United Nations Publication, Sales No.: 1953.II.B.1.

that all countries shared the responsibility for creating the economic foundations of a peaceful world. The United States had not shirked that responsibility: the Act for International Development passed three years previously declared, in fact, that it was "the policy of the United States to aid the efforts of the peoples of economically under-developed areas to develop their resources and improve their working and living conditions". Those words had been translated into deeds. Since the Second World War, the United States Government had made available more than \$6,000 million to under-developed countries in loans, grants and technical assistance; that sum did not include its paid-in subscription to the International Bank or its contributions to the various programmes of the United Nations and the specialized agencies. Altogether the United States had made available \$33,000 million to help less fortunate countries, much of that sum in the form of emergency assistance distributed through UNRRA and the Marshall Plan to war-devastated areas. That aid had helped Western Europe to make its contribution to the economic development of other areas. The United States Congress had recently appropriated some \$600 million for economic and technical assistance to under-developed countries: more money than ever before appropriated for those purposes in a single year. That record was tangible proof of the United States' continued interest in the economic development of under-developed countries.

16. The United States was not at present prepared to support the establishment of a new international fund for economic development or to consider in detail the report of the Committee of Experts, about which it had many reservations, for various reasons. First, the American people was not at present disposed to accept additional financial commitments. Secondly, so far as it was aware, no other country to which the fund might look for effective contributions was prepared or in a position to make such contributions. Thirdly, it was not realistic under existing conditions to expect that the substantial resources made available bilaterally for economic development would be turned over to a new international fund. Finally, it would be a sham for the United Nations to create an international development fund without sufficient means for it to operate effectively.

17. The American people had been carrying extremely heavy tax burdens for some time, and was understandably impatient: since the communist aggression in Korea its taxes had been even higher than during the Second World War. The United States Government was seeking to bring its national budget into balance as a means of promoting the country's economic stability which, as all knew, was important to world economic stability. In those circumstances it was forced to curtail or postpone many economic and social programmes. At the same time it could not afford to weaken its defences or those of other free nations associated with it in mutual security efforts. Its defence expenditures and military assistance programmes for the current fiscal year totalled some \$50,000 million or 70 per cent of the national budget: those expenditures were unavoidable so long as the menace of communist aggression persisted.

18. The American people disliked diverting their human and material resources to unproductive ends: any American engineer was happier building bridges than blowing them up, and any American boy was happier in college than in Korea. Yet American engineers had

blown up bridges and American boys had died in Korea: had they not done so, the present debate might never have taken place. The United States, together with many other countries represented on the Committee, was ready to continue making sacrifices for their survival as free peoples. For that reason it was postponing many things it would have liked to do at home, and by the same token had to postpone some things it would have liked to associate itself with abroad.

19. He was sure that other countries which were carrying heavy defence burdens were in the same position as his own: yet those were the very countries which would be expected to carry the real burden of an effective special fund. The difficulties encountered in meeting even the modest budget of the Expanded Programme of Technical Assistance afforded sufficient grounds for scepticism regarding more ambitious schemes at the present time.

20. He doubted, moreover, whether the creation of a new international agency would serve a really useful purpose if it resulted in no net increase in the assistance being rendered to under-developed countries. Moreover to raise the problem of the transfer to an international fund of the resources already made available for the development of those countries in national legislatures might jeopardize the continuation of existing programmes. In view of existing world tensions, it was very unlikely that the United States Congress and people would be prepared to relinquish their control over the uses of significant amounts of their resources.

21. Nor was there much to be gained by establishing a small-scale fund as a pilot project to begin with. On the contrary, to do so would create among the peoples of the under-developed countries expectations that could only end in disappointment.

22. The Economic and Social Council had recommended that the General Assembly should consider what other preparatory steps might usefully be taken towards the establishment, when circumstances should permit, of an international development fund. Much preparatory work had already been done: the study prepared by the Secretariat in 1952³, the report of the Committee of nine Experts, and the record of discussions on the subject in the Economic and Social Council and the General Assembly provided sufficient preparatory material to enable governments, when the situation permitted, to write a charter for an organization that would be suitable to the circumstances of the time. It was scarcely possible to foresee at the present stage what those circumstances would be, and to continue studying a project which, for lack of the necessary support, was for the moment likely to remain a paper scheme would only create the illusion of greater readiness.

23. However, there was no call for pessimism simply because existing circumstances made it possible to proceed with an international fund. Many useful things could be done to promote the economic development of the under-developed countries. The United States Government, for its part, would continue to press forward with the various programmes on which it had embarked, and would concentrate on increasing their effectiveness and broadening their scope. His delegation had already emphasized the high importance which it attached to the United Nations technical assistance programmes. Further support could be given to the International

³ See *Official Records of the Economic and Social Council, Fourteenth Session, Annexes*, agenda item 5, document E/2234.

Bank of Reconstruction and Development, which was well equipped to assist under-developed countries. There was much to be done also in other directions: the nations could work for co-operation in the field of production and trade of raw materials, and seek together to reduce the uncertainties and hardships caused by fluctuations in the price of primary commodities; they could continue their efforts to reduce barriers to international trade; they could explore further measures to stimulate the flow of private international capital, which had an important part to play in economic development.

24. He reminded the Committee of the United States representative's remarks on that subject at the previous session of the General Assembly, and added that, while the role of private investment in the economic development of under-developed countries had in recent years been small, that had been due, in part, to the difficulties inherent in those countries, such as the low level of labour skills, market limitations, and the inadequacy of public facilities. As a businessman, however, he was sure that the main reason why American capital had failed to move abroad in greater volume was the lack of an atmosphere of mutual confidence. If the private investor was to take the risk of foreign investment he must first be satisfied that if he was successful he would not be deprived of the results of his enterprise. It only took one experience of the threat of, or subjection to, discriminatory treatment to discourage other potential investors. At the same time, the private investor had a responsibility to behave as a good citizen in the community where he did business. That was the concept upheld by the vast majority of American businessmen.

25. It was thus possible to further the economic development of under-developed countries with existing means, among which the various programmes of the United Nations and the specialized agencies were not the least important. It should not be forgotten, however, that that was external assistance which could be effective only if the beneficiary countries themselves made the necessary effort to create internal conditions favourable to their own development. There was no doubt, for example, that the great bulk of development funds would always have to come from local savings and investments. Of that there was no better proof than the information given in the interesting studies of the Economic Commission for Latin America: in the countries of that region production had on the average increased by 5 per cent since the Second World War; but perhaps the most significant fact was that over 95 per cent of the total investment undertaken in that period was provided by local Latin-American capital.

26. He did not wish to be misunderstood: he was not belittling the value of international aid, of technical assistance or of foreign investment, all of which had a place in economic development. But the Committee must not, in its enthusiasm for international action, fall victim to illusions. An international development fund might certainly help to accelerate economic development; but it could never be a substitute for domestic action. To defer the creation of such a fund was not therefore to defer economic development.

27. At the beginning of his speech he had pointed out that the principal obstacle to providing large additional resources for economic development was the heavy defence obligation of the major capital exporting countries. Until arms budgets were reduced, the funds necessary for increased international assistance would not be available. Such reduction, in turn, was not possible

until present political tensions were relaxed. In that sense, development was closely tied to disarmament.

28. It was important to remember that at the end of the Second World War the free nations had rapidly demobilized their armed forces. The United States had reduced its army from 12 million men in 1945 to 1,300,000 in 1947; and had offered to give up its monopoly of atomic weapons in order to achieve genuine world disarmament. But the Soviet Union had not reciprocated in kind. It had continued to maintain an enormous standing army and to spend gigantic sums on armaments. It had employed that power to threaten such free nations as Iran and Greece and to subvert others such as Czechoslovakia, and had supported in Korea an aggression against the United Nations itself. In the face of that danger the free peoples had had no choice but to rearm. They would have preferred, and still preferred, a better choice. But they could not turn their energies toward more constructive tasks unless the Soviet Union and its allies, whose heavy responsibility Mr. Dulles had recalled in his speech in the General Assembly on 17 September,⁴ ceased to prevent them from doing so.

29. The same situation prevailed with regard to disarmament. Starting with its offer in 1946 to turn over its atomic monopoly to a United Nations authority, the United States had steadily pressed for disarmament. So far the USSR attitude had remained completely negative.

30. All, however, must persist in efforts to induce the Soviet Union to approach the disarmament problem from another standpoint than that of propaganda. Mr. Dulles had recently reaffirmed in the General Assembly the sincerity and hope of the United States when he had declared his faith that the time might come, perhaps suddenly, when political leaders would be prepared to put into effect international agreements limiting armaments. That was not mere rhetoric. In his address of 16 April, President Eisenhower had solemnly declared that the United States, in order to help build a world in which all people could be prosperous, was ready to ask the American people to join with all nations in devoting a substantial percentage of the savings achieved by disarmament to a fund for world aid and reconstruction. That declaration had been repeated by the United States representative at the last session of the Economic and Social Council.⁵ The United States delegation had then submitted a draft resolution (E/L.536) designed to implement President Eisenhower's proposal. That draft resolution had been adopted by 16 votes to none, with 2 abstentions. He hoped that the resolution adopted by the Council as resolution 482 A. II (XVI) would be unanimously endorsed by the Second Committee.

31. He had sought to outline a realistic programme to help the under-developed countries help themselves to achieve economic development. The key to that programme was to concentrate on doing what could be done and to redouble efforts to promote progress towards disarmament, until the time came when swords could be beaten into ploughshares for the benefit of all peoples.

32. Mr. HALIQ (Saudi Arabia) said that some governments had not changed their position with regard

⁴ See *Official Records of the General Assembly, Eighth Session, Plenary meetings*, 434th meeting.

⁵ See *Official Records of the Economic and Social Council, Sixteenth Session*, 725th meeting.

to the Special Fund and the international finance corporation to conform with the desires of other countries. He warned the Committee of the danger of seeking agreement on principles without due regard for practical realities. He stressed the role that the Committee could play by making it possible to achieve agreement internationally on principles which were incompatible with some domestic policies and pointed out that the effective implementation of an international finance programme depended on the close collaboration of the strongest and richest countries.

33. International economic co-operation in the form of the establishment of a special fund or an international finance corporation was not unattainable if due account was taken of the economic and political situation. His delegation's view of the financing of the economic development of under-developed countries was based on those considerations.

34. With regard to the Special Fund, the experts appointed by the Secretary-General to submit recommendations on the matter had worked within very narrow terms of reference. They had therefore refrained from drawing up a statute for the fund and from stating whether or not it should be established. They had not reached any definite conclusions. Those who wished to see the Special Fund established deplored that situation. It was an example of the procrastination which too often impeded United Nations' work in the field of economic co-operation.

35. Referring to the experts' recommendations regarding the disbursement of the Special Fund's resources he said that the experts had recommended a method which, if accepted, would create great difficulties in practice because it was vague and indefinite. Thus on page 55 of the Committee's report (E/2381) the necessity was stressed of giving preference to projects promoting certain special objectives given high priority by United Nations organs. However, the report did not indicate the organs in question. In the same way, the recommendations concerning the distribution of the Fund's resources between grants-in-aid and loans were such as to create a dilemma both for the borrowing countries and the administrators of the Special Fund. In the experts' opinion, loans were acts of assistance distinguishable from grants-in-aid only in that it might be found possible and convenient to recover wholly or in part the sums involved. That was an ambiguous recommendation which would certainly lead to criticism by the principal potential contributors. The experts should have defined two sets of principles governing grants-in-aid and long-term low-interest wholly recoverable loans respectively. It was important to be clear regarding the functions of the fund in which was intended to finance projects which could not be financed by existing institutions. It was also important to the viability of the fund to recover money from loans in case the contributions of donor countries were not sufficient to meet the basic needs of the fund.

36. The experts' report also failed to define the criteria to be adopted in regard to the utilization of loans. That point had already been criticized in certain governmental and private circles interested in that form of international co-operation. It should be made clear that part of the grants-in-aid could be used for the purchase of material necessary for certain development projects. A statement of that principle would have prevented grants-in-aid from appearing to be an act of charity and helped to solve to some extent the difficul-

ties caused by currency inconvertibility. Principles could also have been formulated regarding the granting of assistance from the Special Fund to the most deserving countries, the withdrawal of such assistance and the repayment of loans whenever economic conditions permitted. The schedules of amortization of indebtedness to the Special Fund should be made highly flexible and should be put at the discretion, within defined limits, of the administration of the fund.

37. The idea underlying the establishment of the Special Fund was that long-term loans and grants-in-aid would be made available as part of an international co-operative effort to create economic conditions conducive to the maintenance of peace. The problem of long-term loans could perhaps be dealt with by amending the statutes of existing institutions, such as the International Bank but that did not apply to grants-in-aid. At the present time, grants were generously given for purposes of national defence but were severely limited when the object was to stabilize the world economy. However, the maintenance of a sound economy was probably the most effective means of avoiding war. The extension of grants-in-aid to under-developed countries was therefore of primary importance for the maintenance of world peace. It was also important that the under-developed countries should be able to carry out non-self-liquidating projects necessary to enable them to increase their productivity, develop their domestic markets and, consequently, maintain stable economic relations with the industrialized countries of North America and Europe. Such non-self-liquidating projects could only be financed by grants. If, indeed, they were financed by loans the beneficiary countries would have to pay interest and to incur further debts since all under-developed countries lacked the necessary capital. That involved a vicious circle and showed the grants-in-aid were essential for non-self-liquidating economic development projects.

38. With regard to the suggestion that substantial contributions to the Special Fund would not be feasible until armament expenditure had been reduced, he noted that the economic development of many under-developed countries was at present more or less directly related to the armaments race, particularly in the case of extractive industries essential to national defence. Many under-developed countries were carrying out programmes for which capital had been made available solely because the reserves of raw materials and primary commodities necessary for the rearmament of the great Powers were becoming exhausted. It was ironical that the resources of the raw-material producing countries should be gradually depleted and that those countries should have in return only the promise of limited international assistance. It would be more logical and more in the interests of peace to increase immediately the contribution of the international financial institutions so that the under-developed countries could strengthen their economies before they were faced with the consequences of the reduction in their national incomes. The problem did not affect the under-developed countries only; the governments of the industrialized countries were equally aware of the difficulties inherent in the present situation, and for that reason were actively interested in the question of grants-in-aid.

39. Turning to the establishment of an international finance corporation, he said that in seeking to finance their economic development the under-developed countries of Latin America, Asia and Africa often preferred loans by governments and international agencies to pri-

vate investments. That was because private capital had traditionally sought investment in extractive rather than in manufacturing industries where profits were lower and difficulties greater. The governments of the under-developed countries consequently tended to turn to foreign governments or international agencies for assistance in financing their manufacturing industries. It was only logical therefore that the Second Committee and the Economic and Social Council should seek means of financing the industrialization of the under-developed countries and should have considered the establishment of an international finance corporation. He wondered however whether the problem had been tackled correctly. The theory seemed to be that countries seeking capital preferred to borrow from governments rather than from private institutions, and from international agencies rather than from governments. However, the existing international agencies did not seem, at present, to be contributing sufficiently to the flow of investment to all the countries in need of capital. In that connexion, the observations of the International Bank regarding the proposal to establish a finance corporation were not encouraging. The survey conducted by the International Bank suggested that private investors had tacitly accepted the idea of an international finance corporation. It was for the Committee to decide whether private capital should be invited to participate in the proposed corporation.

40. The under-developed countries had frequently been advised to make use of local savings to finance economic development. However, the method involved a number of difficulties. In the under-developed countries income *per capita* was low and the voluntarily saved *per capita* was also low. Since only the higher income groups were able to save, the financing of economic activity through domestic savings would tend to increase the

existing inequality in the distribution of income. In order to close that gap, it was important to make use of all sources of financing—public, national, international and private. Transport, communications, irrigation and power were usually in the public sector whereas the production and distribution of goods and services were almost entirely in the private sector. Consequently, the two methods of financing, public and private, were complementary. Private international investment was an important factor in economic development. It was beneficial to the capital importing and the capital exporting countries alike, as the International Chamber of Commerce had pointed out in a report from which he quoted. He drew the Committee's attention to the need to encourage private investment to finance economic development. At the preceding session the delegations of Saudi Arabia, Egypt, Iraq and Lebanon had submitted a draft resolution⁶ requesting the Secretariat to make a study of the utilization of private capital, but the Secretariat had not yet submitted a report. He hoped that the Committee would examine the question of private investment realistically. Even from the national and political point of view, foreign private investment could be advantageous. It was easier for a small State to deal with private foreign capital, as utilization of government foreign capital might make it politically dependent.

41. In view of the importance of private investment in the development of the under-developed countries, the time had perhaps come to consider the drafting of an international code to govern relations between government borrowers and their private creditors.

The meeting rose at 12.45 p.m.

⁶ See *Official Records of the General Assembly, Seventh Session, Annexes*, agenda item 25, document A/C.2/L.161.