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Chairman: Mr. Ernest CHAUVET (Haiti)
Later: Mr. Leo MATES (Yugoslavia).

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

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

[Item 26]*

1. Mr. ABDEL-RAZEK (Egypt) said that, although the economic development of under-developed countries depended primarily on their own national efforts, the United Nations had always maintained that the question must be studied from an international point of view. The constantly widening gap between the standard of living of the more advanced countries and that of the under-developed areas was liable to constitute a threat to the peace and made it necessary to choose between sound economic development and economic subversion. International co-operation based on justice and fairness must be the supreme moral law governing world progress.

2. The main problems in the way of economic development were the dollar shortage and the disequilibrium in the balance of payments of most countries; the obstacles to international trade: in particular import, export and exchange restrictions and currency inconvertibility; the current economic structure of the under-developed countries: particularly their sensitivity to any deterioration in the terms of trade; and the slow increase in food production as compared with population growth. Those four problems were inseparable and could be solved only by ensuring the economic development of the under-developed countries, where the rate of production would have to be accelerated if the level of productive employment was to be raised in the industrialized countries, if the living standard of the peoples concerned was to be raised and if the world economy as a whole was to be developed.

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

3. To increase production in the under-developed countries it was not enough to modernize their agriculture; they had to be industrialized so that they might become both producers and consumers of raw materials, which would make them less sensitive to world market fluctuations. Such industrialization would also help the advanced countries to overcome their balance of payments difficulties, as they would then find, in the under-developed countries, new markets for their industrial products, particularly capital goods.

4. The issue was not that of making the under-developed countries self-sufficient; economic policy must see to it that a country did not produce what it could import at a lower cost and, conversely, did not import the things it could produce more cheaply at home. It must also be remembered that, as economic development progressed, labour tended to move from agriculture to industry. Hence where there was no surplus manpower, a country's industrialization depended on its agricultural progress or on such factors as migration and immigration, because industry could only absorb the labour not required for agricultural production. In the under-populated countries, therefore, agricultural progress and industrial development ran along parallel lines but agriculture must be given priority. In the over-populated areas, on the other hand, where the land had to feed more people than could be employed in agriculture, industrial development necessarily took priority over the mechanization of agriculture, except for mechanization intended to bring new lands into cultivation or to increase the yield per acre. In those countries it was necessary to establish manufacturing industries capable of absorbing the surplus manpower. Both agriculture and industry had to be developed in the under-developed countries. It was unfair to force those countries to remain mere producers of raw materials without ensuring increasing effective demand for those materials, which was almost impossible in the existing conditions.

5. Since 1951 the General Assembly and the Economic and Social Council had adopted a series of resolutions recommending land reform and rapid industrialization in the under-developed countries. After studying the various methods whereby scientific knowledge and techniques could be applied for the purpose of increasing world productivity and whereby the results of those studies could be made available to the under-developed countries on request, the Economic and Social Council had adopted resolution 416 E (XIV). Pursuant to the request addressed to the Secretary-General in paragraph 5 of that resolution, the Council, at its sixteenth session, had considered the FAO working paper (E/2435) on the problems of productivity in agriculture, fisheries and forestry and the ILO working paper (E/2440) on the role of labour in programmes for increasing productivity and measures needed to safeguard the interests of workers.

6. It was clear that the solution of the world's major economic problems depended primarily on action to

facilitate the financing of economic development in the under-developed countries and the opening of new markets for the industrial products of the more advanced countries.

7. He agreed that the under-developed countries should, as far as possible, use their own resources, and that was why it had been recommended that they should encourage national capital formation by mobilizing savings. It was, however, difficult to increase and mobilize savings to any satisfactory extent in countries with small national incomes where attempts to limit consumption tended to lower already inadequate standards of living.

8. Inflation had also been mentioned as a means of financing development, but it was a dangerous device in the under-developed countries where production was less sensitive to an increase in purchasing power. The attention of the under-developed countries had also been drawn to the importance of exports, but, as was well known, primary commodities were subject to particularly violent price fluctuations.

9. The under-developed countries found themselves in a vicious circle: if they embarked on industrialization they were accused of pursuing a policy of self-sufficiency, and if they tried to establish a fair relationship between export and import prices their action met with the disapproval of those who preferred to maintain the *status quo*. As the Yugoslav representative had said, the under-developed countries had lost, as a result of the deterioration in the terms of trade, profits amounting to approximately \$7,700 million between 1950 and 1952.

10. In order to finance economic development it was therefore essential to have recourse to foreign capital which could be considered under three headings: private capital, governmental and international loans and international grants-in-aid.

11. Despite the importance of private capital in financing the economic development of under-developed countries, for various reasons foreign private capital investment since the end of the Second World War had been insufficient. First, because of the redistribution of goods and income in most advanced countries, individuals were not prepared to incur great risks to obtain returns which, though they might be substantial, would not necessarily be immediately forthcoming. Hence savings tended more and more to be concentrated in insurance companies and savings banks. Secondly, some European countries which had previously exported capital could no longer permit large exports of capital outside their own monetary areas. Thirdly, as private capital was attracted by profit it was naturally invested in the undertakings which investors considered most profitable, such as the production of primary commodities for export. During periods of economic depression investments of private capital became scarcer, and thus world prosperity suffered severely. Lastly, the earnings on private investments were subject to double taxation both in the exporting and importing countries.

12. In connexion with double taxation he recalled that the Council had adopted resolution 416 D (XIV) on fiscal incentives to increase the international flow of private capital for the economic development of under-developed countries, a subject which had subsequently been considered by the Fiscal Commission at its fourth session. The Fiscal Commission had studied, in particular, the question of exemption from taxation in the capital-exporting countries and had finally submitted to the Council a draft resolution recommending that the

highly-developed countries, acting unilaterally or when concluding tax agreements, should give sympathetic consideration to the feasibility of taxing such income only—or primarily—in the country in which the income was produced. The Council had adopted resolution 486 B (XVI), which provisionally supported the position of the Fiscal Commission.

13. With regard to the Fiscal Commission's attitude, it was generally agreed that taxation came within the purview of the States concerned, but that did not prevent the United Nations from adopting the principle of tax exemption to serve as a guide in the conclusion of tax agreements between developed and under-developed countries. Nor could it be claimed that such exemption would result in the placing of a heavier burden on the working classes, because they were not the only classes in a given country and measures could be taken to ensure that they were not required to pay additional taxes. To assert that such exemption might encourage excessive capital exports was inconsistent with the statement that circumstances in the under-developed countries did not encourage private investment. Moreover, capital-exporting countries could take appropriate action to prevent such excessive capital exports.

14. He then outlined the history of the proposed international finance corporation from the original proposal in Economic and Social Council resolution 368 (XIII) to the publication of the latest report of the International Bank (E/2441). The Bank had concluded with the statement that it could not prepare a detailed plan or formulate concrete proposals until it was assured of adequate financial participation. The essential need was therefore not so much to submit incomplete studies to the Council and to the General Assembly as to persuade governments to participate.

15. After considering the matter at its sixteenth session, the Council had invited the Bank, in resolution 482 B (XVI), to present as soon as possible the results of a further study along the lines mentioned with a view to clarifying and analysing the questions raised and the different points of view expressed. He trusted that the Bank would soon arrive at satisfactory conclusions and be able to submit the desired plan.

16. The two main sources of international loans were at present the Export-Import Bank and the International Bank for Reconstruction and Development. The latter was granting increasing loans and technical assistance to under-developed countries. It had been recommended that its loans should amount to \$1,000 million yearly. However, since private capital was insufficient to meet the financial requirements of economic development, and in view of the commercial nature of the International Bank, General Assembly resolution 400 (V) had recognized that the financial needs of the economic development of under-developed countries could not be met without an increased flow of international public funds. He reminded the Committee of General Assembly resolution 520 A, 1 (VI), of Economic and Social Council resolution 416 A (XIV), and of General Assembly resolution 622 A (VII), which stated the necessity of giving special attention to the problem of international financing of economic and social development through international co-operation within the framework of the United Nations.

17. Passing to the proposed Special United Nations Fund for Economic development, Mr. Abdel-Razek pointed out that the Committee appointed under Economic and Social Council resolution 416 A (XIV)

had submitted a report (E/2381)¹ dealing with the income, the operations, disbursements and structure of the Special Fund.

18. It had been recommended that pledges made by governments should be for an initial period of two years, and that the income would afterwards be renewed by yearly contributions. Contributions by States to the operational budget should be voluntary and their amounts fixed by the States concerned. Savings resulting from disarmament would be an additional source of contributions, but were not a prerequisite to the establishment of the fund. With regard to contributions by private or non-governmental organizations, it was most desirable that sums contributed should be tax free. Reviewing the reasons which had led the experts to suggest a fund whose income would be provided by contributions over specified periods of time instead of capital subscriptions, he said that the establishment of the fund would not discourage the investment of private or public capital. It had also been proposed that contributions should be in the form of deposits of local currencies and that full convertibility should not be insisted upon. The experts had wisely not proposed a maximum figure and had recommended that the fund should not be established until \$250 million had been pledged by at least thirty governments.

19. With regard to the operations of the Special Fund the experts had stated the principles to be observed by governments receiving assistance from it as well as the qualifications required. The report also outlined the guiding considerations (E/2381, para. 3, 100 and 101) which should govern the distribution of resources.

20. He regretted that a satisfactory solution of the problem of financing the economic development of under-developed countries was still far from having been reached. He referred to the Secretary-General's annual report (A/2404)² in which it was stated that the problem was not primarily one of machinery but of national policies and climate of opinion, and that a peaceful and stable world order should be founded upon steadily expanding world production, trade and consumption, accompanied by a rise in the standard of living. That statement accurately interpreted the hopes of mankind. World-wide attention had therefore been drawn by President Eisenhower's declaration of 16 April 1953³ that his Government was prepared to ask the people of the United States to join all nations in placing an important part of the savings resulting from disarmament in a development and reconstruction fund, a declaration which had suggested Economic and Social Council resolution 482 A II (XVI).

21. It was obvious from that resolution that international opinion was becoming increasingly aware of the indivisible nature of world economic problems and of the principles of the Charter, but the essential question remained unsolved: when would circumstances make it possible for the fund to be established? He believed that General Assembly resolution 622 A (VII) had correctly answered that question by stating that in the present state of world tension it was necessary to give special attention to the problem of international financing of economic and social development. The proposed Special Fund would be among the most effective means

to that end and its establishment should therefore not be delayed.

Mr. Mates (Yugoslavia) took the Chair.

22. Mr. CHAUVET (Haiti) said that the Committee had been trying over a period of five years to bring about international co-operation in economic and financial matters in order to achieve a lasting peace. The industrialized Powers had a leading part to play, but some of them were not prepared to support the proposal for the setting up of an international finance corporation. Furthermore, the report submitted by the Committee of nine experts, on a Special Fund for Economic Development (E/2381) had been favourably prefaced by the Secretary-General, but instead of action, Economic and Social Council resolution 482 A (XVI) enjoined Member States to stand ready, when sufficient progress had been made in internationally supervised world-wide disarmament, to devote a portion of the savings achieved through such disarmament to an international fund to assist development and reconstruction in the under-developed countries. In other words, the matter had been postponed indefinitely.

23. If nothing was to be achieved on the lines recommended in the experts' report, the under-developed countries would not achieve prosperity and there would be a danger of the establishment of totalitarian régimes, as after the First World War. While some nations such as Great Britain and France had become poorer, the United States and Canada were economically powerful and could be a source of assistance. Economic theories differed according to political ideas, but all sought to raise standards of living. Real stability could only be brought about by the achievement of real economic equilibrium. The absence of aggression alone could not ensure peace; material well-being was also required. The United States, as the world's greatest financial Power, had a leading part to play. Financial assistance should not be directed only to Europe and Asia; other under-developed countries, in Latin America for example, could be helped by the foreign aid programme instead of having to apply to private banks which charged high interest rates.

24. Technical assistance and the "Point Four" programme helped countries to survey resources and prepare plans but, without financial co-operation, if only in the fields of irrigation, communications and electrical power, they would be so much wasted effort.

25. The Second Committee should therefore urge the establishment of an international finance corporation on the lines proposed by the International Bank, and of a special fund as suggested by the nine experts. Savings on defence budgets could be used to provide the \$250 million required to start the Special Fund. Financial assistance to the under-developed countries would also help to solve the problem of reconversion created by the end of the war in Korea. Loans to the under-developed countries would enable them to buy the machinery and capital goods they needed and by promoting their development would ultimately create vast markets for the consumer goods produced by the developed countries. In that connexion, he referred to the system of credit he had proposed in a speech to the Committee on 23 October 1952 (195th meeting), and to General Assembly resolution 520 C (VI).

26. The Committee could no longer be satisfied with mere projects. A special United Nations fund for economic development would be of benefit to the contributing and beneficiary nations alike. There would

¹ United Nations Publications, Sales No.: 1953.II.B.1.

² See *Official Records of the General Assembly, Eighth Session, Supplement No. 1.*

³ *Ibid.*, Supplement No. 3 (A/2430), para. 481.

be neither waste of funds nor charity. The great advantage for the countries assisted would be that the rate of interest would be substantially lower than that charged by the International Bank, and that loans would be made in a more flexible manner. The Special Fund must be established in order to continue the work begun by technical assistance to promote the well-being and economic and financial stability of all countries.

27. Mr. FOXCROFT (Australia) said his country had, during the last few decades, transformed its economy from one based principally on primary production to one with a complex and diversified range of industries. Throughout its period of rapid expansion Australia had been helped by a considerable inflow of capital and had recently had some valuable assistance from the International Bank for Reconstruction and Development. From its own experience, therefore, and in view of the tasks still facing it, Australia sympathized with the problems of countries undergoing a similar process of development.

28. The debates at the fifteenth session of the Economic and Social Council and the *World Economic Report 1951-52* underlined the magnitude of the problems involved and the slow process of development in many countries. That report showed that the economies of under-developed countries should be strengthened in many ways and it stressed the serious position in which such countries had been placed recently by fluctuations in world prices. The Committee had therefore to consider how those problems could be alleviated and what combination of national and international policies was likely to achieve the most satisfactory and prompt results.

29. The Australian delegation to the Sixteenth Session of the Council had supported the proposal to refer to the eighth session of the General Assembly the declaration by which Member States would indicate their willingness to ask their peoples, when sufficient progress had been made in internationally supervised world-wide disarmament, to devote a portion of the savings achieved thereby to an international fund within the framework of the United Nations, designed to assist development and reconstruction in under-developed countries. The Australian delegation had at the same time stated⁴ that in Australia's case there would inevitably be national claims on any resources released as a result of reductions in defence expenditure.

30. Action by the present session of the General Assembly on the matters referred to it by the Council should be realistic. Full account should be taken of the fundamental economic and political problems involved in development processes, particularly the willingness of the richer countries to contribute. The Council's resolution specifically contemplated action at a stage when sufficient progress had been made with disarmament. The question was how far those proposals could be carried forward in the present circumstances.

31. It had become increasingly clear, as a result of recent experience, that economic development could be helped by three forms of international action; special studies and research by the United Nations Secretariat and expert committees, technical assistance, and measures to facilitate the supply of new capital. Never before had international institutions been set up to work in those three fields. Although research into possible future activities in such fields was continuing and should

continue, the scale on which those activities could be most usefully carried out had not yet been decided.

32. Mr. Blough had already described (248th meeting) the substantial progress which had been made in the special studies carried out by the United Nations Secretariat. Although such studies were impressive and useful the question of their application should be decided by the countries themselves. The Australian representative at the fifteenth session of the Council had already referred to the illusion that programmes of industrialization equally applicable to all countries could be laid down by any international body.⁵ It was perhaps necessary to determine more precisely what could be expected from such studies and to recognize their limitations as well as their advantages.

33. Similar conditions should govern the supply of additional capital. It was not enough to attempt to mobilize and distribute international capital; it must also be put to effective use and recipient governments must have the necessary means of using it to promote their own balanced economic development. World economic development could not be planned as such. It could only take place slowly in each country.

34. The most pressing need was for an adequate supply of savings. Countries undergoing development should adopt policies to increase their savings, a slow and difficult process. Other problems to be faced were price and wage incentives, the avoidance of inflationary pressures, the supply of skilled labour and the maintenance of a reasonable equilibrium in the balance of payments. However, certain factors influencing the economies of the under-developed countries were beyond their control and required special international action. Such action however could only be supplementary to national efforts.

35. Australia had played its part in recognizing the needs and aspirations of countries undergoing development. The help it had given however had come from the savings of the people. Australia was neither an under-developed nor a capital-exporting country. It was going through a process of expansion and had overcome initial difficulties, such as inflation, by means of drastic measures but still had to face the task of developing its resources. The present level of savings was too low to sustain a rate of national expansion adequate to Australia's needs. Moreover, Australia had responsibilities towards two under-developed territories, Papua and New Guinea.

36. Against that background, Australia had already made considerable contributions towards the development of under-developed countries because it had recognized its obligations and was anxious to raise the living standards of other countries to the level of its own. Thus, Australia had contributed substantially towards the Colombo Plan, the Expanded Programme of Technical Assistance and other United Nations programmes. Furthermore, the Australian Government had played a leading part in establishing the South Pacific Commission, a consultative body which undertook research into various projects for advancing the economic and social welfare of the South Pacific Non-Self-Governing Territories. Australia finally had fulfilled its duty by sending forces to Korea which had entailed a costly drain on its resources.

37. Without wishing to exaggerate its own contribution or to ignore the extraordinary generosity of the United States, the Australian Government believed that

⁴ See *Official Records of the Economic and Social Council, Sixteenth Session, 729th meeting.*

⁵ *Ibid., Fifteenth Session, 696th meeting.*

Australia had played a significant and practical part in helping under-developed countries towards higher standards of living by developing their own resources. The opinion of the Australian delegation on the question whether and when the Special Fund should be established, which had already been expressed in the Council, was that the leading capital-exporting countries, (which did not include Australia) should first determine their attitude to the proposal. Those countries had been unable to agree to the immediate establishment of a special fund but had agreed to consider joining in a declaration asking governments to support the establishment of an international fund at the stage when sufficient progress had been made in world disarmament. His country had supported the reference of that proposal to the General Assembly, but had stressed and would do so again, that so far as Australia was concerned, there would be claims on any resources released as a result of a decrease in defense expenditure for the development of Australia and its territories.

38. Australia, in common with other countries, had to balance its manifest sympathies with development needs with the requirements of its own economy. The problem should be approached realistically. Progress could not be made merely by passing resolutions and the basic conditions which the Council resolution so clearly defined should prevail before a real advance could be achieved.

39. Mr. ZOLOTAS (Greece) said that economic development was almost as important for advanced countries as for under-developed countries. Among the factors necessary for economic development, adequacy of capital was fundamental and had always been considered as such by the United Nations.

40. It was evident that the inflow of capital to under-developed countries during the post-war period was insufficient to cover even the most urgent needs. In such countries capital was indispensable not only for the execution of economic development projects but also for the achievement of basic institutional reforms, such as land reform.

41. The terms on which foreign capital had been invested in backward countries, although generally favourable, had in many cases proved unsuitable for the execution of low-yielding and high-cost projects in such basic fields as electric power, roads and railways, port facilities and agriculture. In the absence of such projects little could be done to assist economic growth and foreign private investors were thus discouraged.

40. Existing international and national institutions had been unable to provide enough capital for the above purposes. On the other hand, loans for basic projects might impose severe strains on the economies of borrowing countries and prove not to be repayable. The President of the International Bank for Reconstruction and Development had rightly pointed out that lending countries might find it preferable to make outright grants rather than loans. For that reason the more highly advanced countries, particularly the United States, had given substantial financial and technical assistance to under-developed countries. However, such generous aid which had enabled Greece, among others, to make remarkable progress, could not cover the vast and manifold needs of all the under-developed countries.

43. Since General Assembly resolution 520 (VI), a committee of experts had been appointed whose report (E/2381) had been discussed at the Council's sixteenth

session and transmitted to the Assembly with a recommendation to consider what other preparatory steps might be taken. It was apparent from the Council discussions that the leading capital-exporting countries were still non-committal. As long as those countries did not support the new organization, it would be absurd for the majority of the Assembly which was composed of under-developed countries, to embark on the creation of a fund without funds.

44. In that respect there was some grounds for optimism. The President of the United States of America had promised to contribute a substantial percentage of the savings achieved through the reduction of armaments to a fund for world reconstruction. The Gray Report and the report of the International Development Advisory Board were equally encouraging. As the Gray Report stated, assistance should be organized on an international basis with the participation of the borrowing countries.

45. In that respect the experiences of the Bank were extremely valuable. That organization had done remarkable work and had gained the confidence both of the borrowing and creditor countries.

46. With regard to the report on the Special United Nations Fund for Economic Development, the Committee appointed by the Secretary-General had adopted a realistic view in recommending that it should not be established until a minimum amount equivalent to \$250 million had been pledged by at least thirty contributing governments. The Special Fund when established should not be administered by a fully independent organism like the specialized agencies but should employ a small staff working in close contact with the competent services of the United Nations and with the Bank itself. The Special Fund should conduct only two kinds of operations: grants-in-aid and long-term loans bearing no interest. The Committee had paid insufficient attention to the question of interest although it constituted the greatest burden to under-developed countries in the implementation of non-self-liquidating projects. In many cases, long-term loans bearing no interest would prove adequate in financing projects without dangerously burdening the borrowing country's economy. Grants should only be made where careful examination had shown them to be necessary. Such a policy would enable the new organization to build up a revolving fund from which many countries would benefit and avert the abuse of grants-in-aid. The granting of loans bearing interest should be left to the Bank or similar national institutions. Careful delineation of the respective fields of operation of the Special Fund and the International Bank was imperative and could easily be achieved if the above proposal was adopted.

47. Finally it was essential that the Special Fund be administered in such a way as to ensure the maximum use of internal savings and self-help in the assisted countries. Careful administration was essential and the Special Fund should also make concrete stipulations and give adequate guidance to borrowing countries. An international agency such as the Special Fund would be more effective in enabling less developed countries to adopt domestic measures which though necessary might be politically difficult. After two years of discussion the present session of the Assembly should try to reach a compromise and adopt constructive proposals.

The meeting rose at 5.50 p.m.