



C O N T E N T S

	<i>Page</i>
Agenda item 27:	
Economic development of under-developed countries (continued):	
(a) Question of the establishment of a Special United Nations Fund for Economic Development: report of the <i>Ad Hoc</i> Committee;	
(b) International tax problems: report of the Eco- nomic and Social Council;	
(c) Industrialization of under-developed countries General debate (continued).....	135

Chairman: Mr. Mohammad MIR KHAN (Pakistan).

AGENDA ITEM 27

Economic development of under-developed countries (A/3154, A/3192, A/C.2/L.295) (continued):

- (a) **Question of the establishment of a Special United Nations Fund for Economic Development: report of the *Ad Hoc* Committee (A/3134 and Corr.1 and 2);**
- (b) **International tax problems: report of the Economic and Social Council;**
- (c) **Industrialization of under-developed countries**

GENERAL DEBATE (continued)

1. Mr. MARIN PAREJA (Bolivia) said that, economically and politically, the question under discussion was of vital importance both to the highly industrialized countries, which were haunted by the spectre of over-production, and to the under-developed countries, which could not solve their economic and financial problems solely by their own efforts. Economic development was a *sine qua non* of political stability in the backward areas of the world and hence a vital factor in international peace.

2. Bolivia was passing through the primary stages of industrialization, but had hardly attained the status of a modern capitalist State. Economic development was the sole means of raising the standard of living of its people. However, the country was unable to promote economic development at the required tempo from its own resources for the simple reason that its capacity to pay for capital goods on the international market was already strained to the utmost.

3. Between 1945 and 1952 the economies of the Latin American countries had shown hopeful signs of rapid development: the index of *per capita* gross income had risen on the average by 3.2 per cent per annum, allowing 18 per cent of the gross national product to be reinvested. Unfortunately, such encouraging signs had

been the result not of increased production but merely of favourable prices for export commodities. When after 1952 prices had fallen, the average annual reinvestment rate had dropped to 13.5 per cent and the increase in *per capita* income to a mere 1 per cent.

4. Given the present conditions in the international market, it was impossible for many of the Latin American countries to achieve a satisfactory rate of investment and a steady development of *per capita* income. They could not increase their capacity for external payments without drastic reductions in home consumption, which was already low. While the more advanced countries could, in times of crisis, reduce consumption without endangering their economies, such measures were impossible in countries where the level of living was already substandard and where further reductions might almost amount to genocide.

5. The figures previously quoted were averages and applied to the whole of Latin America; in other words, they included fairly prosperous countries like Mexico, Venezuela, Brazil, Argentina and others. Unfortunately Bolivia was not one of them, and there had been no increase at all in its *per capita* gross income.

6. Thus only foreign capital investment could help the needy Latin American countries. However, although their Governments had enacted legislation to ensure a favourable climate for investment, the amount of foreign capital actually invested had been inadequate. Between 1946 and 1952, for example, United States investments in Latin America had been less than \$2,500 million, while profits withdrawn by the United States had amounted to \$3,600 million. In other words, the countries of Latin America were giving more than they were receiving.

7. Private capital was invested abroad only where greater profits could be obtained abroad than at home. Thus, according to the Chase Manhattan Bank, of the total investments of thirty-five United States oil companies in 1953—\$27,290 million—only \$3,247 million had been invested abroad. However, profits from foreign investments had accrued at the rate of 20.6 per cent as against 6.6 per cent for home investment. According to the Economic Commission for Latin America, the average annual return on foreign investments in Latin America between 1948 and 1951 had been 18.3 per cent in some countries and 21 per cent in others.

8. Turning to the problems of his own country, he recalled that in 1952 the Bolivian Government had decided to nationalize the Patiño, Aramayo and Hochschild mining companies because, even individually, they dominated the State both politically and economically. The action had undoubtedly created an unfavourable impression on potential foreign investors, and the position had been further aggravated by the vindictive propaganda put out by the nationalized firms. It should, however, be made clear that the Government had taken action only against three particular companies; it was not pursuing a general anti-capitalist policy. Indeed, it had taken

many measures to create a favourable climate for foreign investments.

9. Fortunately the United States had helped the revolutionary Government to develop its national resources and to draw up a comprehensive plan for the diversification of its economy. Nevertheless Bolivia needed still further aid to develop its infrastructure. As a result of its former semi-feudal agrarian economy and the domination of its economy by the three big mining companies previously mentioned, it was still a country without capital and with a low level of savings. Lack of human resources, low indexes of consumption and production, the absence of a direct outlet to the sea and a feeble trickle of immigration all militated against foreign capital investment.

10. While agreeing completely with previous speakers that the under-developed countries were themselves primarily responsible for their economic development, he stressed nevertheless that they could make no headway without adequate financial help. For example, as its representative had pointed out, Turkey was a country which offered excellent prospects for foreign investors but was still very short of foreign capital.

11. What the under-developed countries needed above all was assistance in improving their infrastructures—hence the unanimous adoption of General Assembly resolution 724 A (VIII) of 7 December 1953 recommending the establishment of an international fund to assist development and reconstruction in under-developed countries. Everyone, including the main potential contributors, agreed that the Special United Nations Fund for Economic Development (SUNFED) would do much to solve the problems of the under-developed countries, but there was a move to make it dependent upon progress in disarmament. That was an unreal approach. To postpone the establishment of SUNFED indefinitely was to aggravate the present world situation and to maintain a state of unrest among the under-developed countries.

12. The delegation of Bolivia would give its whole-hearted support to any practical proposal to make SUNFED a reality.

13. Mr. OMPI (Indonesia) said that for the under-developed countries lack of skilled labour was just as big a problem as lack of capital; for that reason, his delegation favoured a substantial expansion of United Nations technical assistance programmes. The accumulation of savings in the less developed countries was very difficult because of their low levels of national income; but the acquisition of technical knowledge was an even more alarming problem. For example, in 1945, when Indonesia had gained its independence after three and a half centuries of colonial rule, more than 95 per cent of the population had been illiterate. In approximately ten years of independence the country had succeeded in reducing illiteracy to approximately 50 per cent. The elimination of such colonial legacies required time and money.

14. Much had been done at the international level to provide technical and financial aid for the under-developed countries, but much more still remained to be done. Such aid should be considered as a kind of "pump-priming" operation whereby the final results attained were much greater than the initial efforts expended. A certain time had to elapse before financial and technical assistance could be properly co-ordinated. There was a great danger that technical aid might lag behind financial aid, as in a sense there was more capital available in the world today than skilled labour.

15. Once an under-developed country had by its own efforts and with international help increased its means of production, it had to decide what general direction its economy should take and, in particular, whether it should continue to function solely as an exporter of primary commodities. Short-term fluctuations in world markets made such economies particularly vulnerable. At the same time, many former colonies could now no longer rely on the colonial Power as a market for their primary products and a protected source of manufactured goods. Having achieved their independence, they had to face their economic difficulties on their own. Besides short-term price fluctuations, account should also be taken of the so-called international trade multiplier; it would be very interesting to have a calculation of the international trade multiplier for a series of under-developed countries.

16. In Indonesia, income from exports constituted approximately 15 per cent of the estimated national income. A decline in primary commodity prices thus had a serious effect on the national economy. As many delegations had already pointed out, it should be one of the primary tasks of the United Nations to examine the problem of price instability and try to find a solution.

17. It was the instability of prices which caused the under-developed countries to reject the idea of increasing only their agricultural and mining output and to favour a diversification of production through the development of a series of industries in addition to those basic sectors. Thus in the event of a fall in commodity prices the impact upon the budget, monetary stability and the balance of payments could be cushioned. However, a vicious circle became apparent. Industrialization could be financed only from the proceeds of primary commodity exports, which were at the mercy of price fluctuations. In other words, the development of the under-developed countries would continue to be hampered so long as the problem of unstable export markets remained unsolved. At the same time, food shortages were a drawback to economic development since they made it necessary to spend money originally allocated for development purposes on importing foodstuffs. Ultimately such a procedure caused a deterioration in the balance of payments position.

18. The economies of the under-developed countries were extremely vulnerable and it was a matter of urgency to find a way of preventing short-term fluctuations in the prices of primary commodities. The fact that the two recessions in the United States since the Second World War had had no adverse effect on the business cycle, at least in the Western hemisphere, had given rise to a feeling of optimism which was not altogether justified, since the increased demand did not necessarily apply to all the primary commodities. That was the case, for instance, with rubber, the demand for which had declined in consequence of the recent slackening of activity in the United States automobile industry. Indonesia, for one, had experienced considerable difficulties as a result. The prosperity of the industrialized countries therefore represented only a negative guarantee. Moreover, the economic repercussions of recent political events had been considerable and, although the present difficulties of European countries might serve temporarily to stimulate exports from the less developed countries, the damage sustained by the economies of the former countries would later have adverse effects on the economies of the latter countries too. It was therefore all the more necessary to seek some means of improving world economy. The Commission

on International Commodity Trade had given some attention to the problem of the stabilization of export markets, but the major industrial countries had so far shown little interest in the Commission. He appealed to them to join more actively in its work. It might, perhaps, be possible to use the resources of the International Monetary Fund to help prevent short-term fluctuations.

19. The expansion of international trade was another matter calling for attention. Needs resulting from recent political events might provide a stimulus in that direction.

20. With regard to the establishment of SUNFED, the question now was not whether such a fund should be set up—there was general agreement on that—but when. His delegation would support any move for establishment at the earliest possible date. He noted with satisfaction that a number of countries which would be the main contributors to SUNFED had now expressed their readiness to participate.

21. The industrialization of the less developed countries was a matter of economic necessity. It would help towards the diversification of their economies and towards bridging the economic gap between them and the more advanced countries. It would also provide the essential basis for the development of other branches of their economies. His delegation was glad to see that the United Nations was giving greater attention to the need for international co-operation in that field, and it hoped that the proposal made in the Economic and Social Council for the creation of a new body to deal with industrialization would be adopted.

22. In general Indonesia thought that the solution of economic problems should not be compelled to wait upon the solution of the political problems now besetting the world. On the contrary, it believed that the solution of some of the outstanding economic problems of the day would of itself bring about an improvement in the political situation.

23. Mr. ELIZALDE (Philippines) said that the Philippines had passed through various phases, ranging from relative prosperity to almost total destruction as a result of the war; it had rich natural resources and some industries, but was concentrating on the mechanization of its agriculture. However, he did not intend to dwell upon his country's problems.

24. His delegation wished to support the Canadian and Norwegian draft resolution (A/C.2/L.295) which proposed that a thorough survey should be made of all the economic assistance at present being given to Governments through international organizations before any new projects were undertaken.

25. It was not that the Philippines itself would not welcome more capital and facilities, but he feared that hopes raised too high might be dashed. A number of examples could be cited in warning—for instance, that of the Food and Agriculture Organization of the United Nations, which had never been able to live up to the great expectations of those who founded it, simply for lack of the necessary funds. There would, he feared, be similar disappointments if the present grandiose proposals for the economic development of the under-developed countries were not approached realistically on the basis of the funds actually available. For that reason, he strongly supported the joint draft resolution calling for a full appraisal of the present situation.

26. Mr. GONZALEZ (Costa Rica) said that his delegation gave the fullest support to the idea of

SUNFED. The Latin American countries could not but welcome with enthusiasm any opportunity offered them to benefit from the technical and cultural advances of today.

27. Costa Rica was very grateful for all the help it had received through the United Nations programmes of technical assistance and through the United States Point Four programme. There was little need for him to say much about the value of economic assistance in general. One point to which his delegation would like to draw attention was that of the role of private capital investment in the economic development of the under-developed countries. He disagreed with the opinion recently expressed on that point by the United States representative (409th meeting). He would not repeat the figures given by the representative of Colombia (402nd meeting) to demonstrate the ineffectiveness of such investment in promoting the economic development of the Latin American countries, but would simply point to one or two undesirable aspects of foreign private capital investment.

28. The Latin American countries did not wish to promote a new wave of colonialism of the kind implicit in foreign ownership; nor did they wish to remain simply the producers of raw materials, all to be processed in other countries—which meant higher wages for the workers of those countries. Similarly, they did not want foreign private capital investments in their public services; they believed that they should themselves own public service installations. Costa Rica had already had a sobering experience of the disadvantages of foreign ownership with the Electric Bond and Share Company, which had exercised a virtual monopoly for some thirty years, during which time the economic development of the country had been held back. The production and consumption of electricity had increased considerably since the creation of the National Electricity Institute in 1948. Incidentally the International Bank for Reconstruction and Development had refused to help finance that enterprise because it would compete with the foreign company. Latin America had no faith in professions of philanthropic interest on the part of holders of foreign capital. The purpose of private investment was clearly profit and not the economic development of the country concerned. It was an unfortunate fact that the interest of businessmen influenced the behaviour of Governments and in particular that of the United States Government, to the detriment of the latter's prestige in the countries whose goodwill it was seeking. The recent overthrow of a legitimate Government had been welcomed in United States business circles because, it was said, the military Government would take a stronger line in regard to labour. It might be objected that the Government was not responsible for the actions of its citizens who were engaged in business; but it ought, surely, to control their actions if they besmirched its prestige abroad.

29. The stabilization of the prices of their products on world markets was of vital importance to the Latin American countries. Costa Rica's negotiations with the Bank with a view to obtaining support for its coffee production had been very disappointing. It was perhaps not out of place to recall that during the Second World War coffee prices had been frozen by the United States at a level which was half the market price when controls were removed. The coffee-producing countries had thus contributed for four years to the war effort half their coffee crops—their sole source of income. They did not begrudge that, in spite of the consequent lower-

ing of their already low standards of living; but they had found at the end of the war that the credits they had accumulated in dollars would buy far fewer industrial goods than at the time when they had been earned. They deplored the general lack of understanding of that situation, which had caused the United States Senate in 1950 to set up a special sub-committee to investigate the reasons for the high price of coffee.

30. It was true that there was unfair distribution of national income in the Latin American countries; but that was an internal and a social problem and should not be made the excuse for paying them an unfair price for their products. An improvement in the distribution of national income would be possible only when the national income was capable of providing an adequate standard of living for the entire population. Indeed, his country vigorously rejected the whole system of paying low prices for the products of other countries and then providing them with assistance for their economic development. The best source of income for a country, as for a man, was fair payment for services rendered. In the United States the farmers' battle for better prices had resulted in a fairer distribution of the national income and, incidentally, in the expansion of rural markets for industrial products. Latin America as a whole was today in the same position as the United States farmer had been in recent years.

31. Latin America lived upon the product of its exports of raw materials to the industrialized countries and could buy from them only to the extent of its receipts from them. If the prices of raw materials were forced down, the whole southern continent was paralysed in its economic development. Its watchword, therefore, in its relations with the United States, was "Trade, not Aid". The Latin American countries also wanted loans and not grants and felt that the best means of providing them was the proposed establishment of SUNFED. Long-range direct loans to the under-developed countries was the best way of offsetting their lack of capital. If, through fair prices, technical co-operation and adequate credits, the under-developed countries could accumulate their own capital, they could, he was sure, offer a suitable field for foreign private investment.

32. Mr. VALLADARES (Brazil) said that the discussion in the United Nations of the item under consideration had shown that the under-developed countries and the industrialized countries were in agreement concerning the general objectives, but differed in their views on the methods and time-table of implementation.

33. The capital-exporting countries of the West had stressed that the external financing of economic development should come mainly from private sources, whereas the under-developed countries, while wishing to stimulate the flow of private capital, were rather sceptical about the actual possibilities. In some backward areas political instability discouraged private investment and the situation could not be remedied until the dissatisfaction of the masses had been relieved by economic progress. More important still, as there were sufficient domestic investment opportunities, the United States and the Western European countries were less interested in investing abroad, except in certain specialized sectors such as oil and mining, while the under-developed countries were chary of the political implications arising out of the concentration of foreign investment in those sectors.

34. In most of the under-developed countries the economic infrastructure did not attract private foreign

capital, yet it had to be developed as a prerequisite to foreign investment in agriculture and industry. It could not be said that the under-developed countries had done everything possible to attract foreign private capital, but it must at the same time be recognized that the international private capital was not plentiful and was often forthcoming only after public investment had created the necessary infrastructural conditions.

35. The International Finance Corporation provided only a partial solution. It had started with such meagre resources that it could not hope to keep pace with the growing demands for investment capital in the backward areas in process of industrialization. The problem of financing the economic and social infrastructure was still unsolved. The Bank and the Export-Import Bank were useful, but the conditions which they attached to loans placed them beyond the reach of many under-developed countries. The annual volume of investment of the Bank was very small. Part of its investment capital had gone to the more favoured and prosperous of the under-developed countries; and some had gone towards the development of European countries which had already benefited from generous grants and loans from the United States. In some cases, instead of providing capital to help them stabilize their balance of payments, the Bank had obliged under-developed countries to resort to suppliers' credits in order to finance their urgent programmes.

36. In view of the shortcomings of the Bank, the under-developed countries strongly supported the establishment of SUNFED which, despite years of discussion, had not yet come into existence. The potential contributors persisted in making any further contribution to the financing of economic development conditional upon disarmament—a condition unlikely to be fulfilled in view of the continuing state of international friction. Economic development should not await disarmament; on the contrary, disarmament would be made possible by economic development. So long as extremely poor areas continued to exist, discontent would continue to justify the existence of armament programmes. Despite United Nations efforts, *per capita* production in the industrialized countries had increased by 45 per cent as compared with the pre-war period, whereas in the under-developed areas as a whole the increase had been less than 5 per cent.

37. The statistical data available and recent developments in economic theory showed that the virtual international immobility of labour and the sluggish flow of capital to the under-developed countries tended to aggravate economic inequalities between countries. Hence it was essential to come to a positive conclusion concerning the operation of SUNFED, independently of disarmament programmes. The relatively modest amounts required to stimulate the under-developed countries would certainly not jeopardize the security of the industrialized States; on the contrary, international security would be strengthened.

38. The scale of SUNFED's operations, as at present visualized, was much too modest. The principle of the universality of contributions, while socially and morally commendable, would oblige the under-developed countries to make contributions by deducting from their investment potential and would tend to make the richer countries scale their contributions according to the limits set by the relative participating capacity of the poorer countries. He therefore hoped that SUNFED, once established, would adjust itself to the magnitude of the problem.

39. Of course, SUNFED would be unrealistic without the support of the great economic Powers. The prime necessity of the under-developed countries was to expedite their economic development by means of public infrastructural investment and international and national private investment. If international capital were not forthcoming, levels of living, already extremely low, might have to be lowered still further, or the country in question might be reduced to a state of economic stagnation. Either alternative involved great hardship which might provoke desperate remedies.

40. Another problem of vital importance to the under-developed countries was that of improving their terms of trade in primary commodities and of stabilizing commodity prices. The only solution seemed to be the large-scale industrialization of the under-developed areas which would increase the world demand for basic commodities and, in some cases, absorb over-production and increase the supply of manufactured goods. The United Nations could encourage such industrialization by providing technical assistance, by disseminating technological information, by stimulating public and private investment—for example, through SUNFED—and by formulating a coherent industrialization policy.

41. The bold bid to make the benefits of the peaceful application of atomic energy available to the under-developed countries ought to be co-ordinated with the idea of SUNFED; indeed it was not too much to suggest that the International Atomic Energy Agency (IAEA) should form the nucleus of SUNFED.

42. The proposal to create a world food reserve was more complicated, and its economic effects were less certain than those of IAEA. There again the matter should be considered in conjunction with SUNFED. If some contributions had already been made in the form of agricultural surpluses, SUNFED could already have started its operations, on a modest scale of course.

43. In conclusion, he stressed that efforts to disarm and to achieve political conciliation were unrealistic unless they took into account the fundamental fact that war was economic in origin. Economic co-operation was therefore the quickest and surest way to international peace.

44. Mr. ARGAMAN (Israel) considered that the keynote of the Committee's discussions was the fact that the gap in levels of living between different countries at varying stages of economic development was widening. It was encouraging to note, however, that the gravity of the problem was appreciated to an increasing degree by the developed and the under-developed countries alike. Yet while there was general awareness of the existence of the problem, there was less general agreement on the methods of dealing with it. Capital investment appeared to be the most effective method, and in view of the limited possibilities of capital accumulation from national resources the concept of international aid, both bilateral and multilateral, had come to the foreground.

45. He had little to add to Israel's reply (A/AC.83/L.1/Add.3) to the questionnaire on the establishment, role, structure and operation of SUNFED. Naturally, SUNFED would help to supplement the forms of international financial assistance already in existence, but it must never be forgotten that the primary responsibility for economic development and capital investment fell upon Member States themselves.

46. While he did not question the generally accepted need for the rapid industrialization of the under-

developed countries, he felt that some consideration must be given to methods and priorities. The capacity to absorb technological knowledge, the efficient training and use of manpower, and the need to plan industry in relation to the other basic sectors of the economy could determine the success or failure of development schemes. Experience had shown that a country which did not have a reasonably high level of scientific research could not produce good engineers, and that a high scientific level could not be attained without a nucleus of educated people. Hence his Government, in replying to the questionnaire, had suggested that the Technical Assistance Board should be given a prominent role in connexion with SUNFED. His delegation also supported the draft resolution to the effect that the principles of over-all planning should be applied to the operations of international organizations (A/C.2/L.295). There was little point in dealing with problems at the financial level if the technical and commercial aspects or the social repercussions were ignored. He drew attention to the hopeful anticipation with which most countries looked to the peaceful application of atomic energy. In the meantime efforts should be made to perfect the international machinery in order to make the transition to atomic energy less likely to harm national economies.

47. Two special factors determined the character of Israel's development: first, the nature of the country, which was relatively poor in natural resources and largely barren; and, second, the fact that the population was largely unfamiliar with the elementary aspects of economic development. During the past eight years Israel's population had more than doubled, but more than half the newcomers had no vocation on their arrival. Development programmes had been prepared not only to deal with irrigation, the mechanization of agriculture and the establishment of new industries, but also to provide homes, schools, roads, hospitals and other services for the expanding population. Inevitably there had been heavy stresses and strains, including an unfavourable trade balance and inflation. While outside capital in the form of grants and loans, especially from the United States, had done much to facilitate Israel's task, the settled population had undergone great economic hardship. Nevertheless progress had been considerable in every sector of the economy and the total value of national production had more than doubled in the course of those formative years.

48. Israel's progress would have been impossible had not the Government devoted considerable attention from the outset to the problems of general education and scientific training. Much more could certainly have been done if Israel had not been obliged to bear a heavy security burden occasioned by the hostile attitude of its neighbouring States translated into direct economic terms in the form of blockade and boycott. A representative of one such State had made a plea in the Committee for the removal of obstacles to international trade. Israel welcomed such an approach. The blockade of Israel's shipping in international waterways had constituted an unjustified burden. Boycotts and blockades were a two-edged weapon, as Israel had been not entirely unsuccessful in demonstrating.

49. While fully recognizing the importance of the development of international trade as a means of promoting international economic co-operation, he stressed the importance of confidence and stability in trade relations, especially in connexion with raw materials. No political considerations should be the motivating factor. Some countries in which foreign trade was under full gov-

ernment control had adopted the practice of repudiating bilateral commercial agreements for non-economic reasons.

50. Israel's experience illustrated the fact that educational, cultural and psychological advancement might rightly be considered the concern of the international agencies interested in bringing welfare and prosperity

to those vast areas of the world where want and poverty prevailed.

51. Mr. ALLOUNI (Syria) reserved the right to reply at a later stage to some of the remarks made by the Israel representative.

The meeting rose at 1.5 p.m.