

United Nations
**GENERAL
ASSEMBLY**

NINTH SESSION
Official Records



SECOND COMMITTEE, 326th

MEETING

Wednesday, 1 December 1954,
at 10.55 a.m.

New York

C O N T E N T S

Agenda item 25:

Economic development of under-developed countries (*continued*)

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Chairman: Sir Douglas COPLAND (Australia).

AGENDA ITEM 25

Economic development of under-developed countries (A/2686, A/2702) (*continued*)

(c) International flow of private capital for the economic development of under-developed countries (A/C.2/L.225, A/C.2/L.240, A/C.2/L.241, A/C.2/L.242) (*continued*)

1. Mr. ALFONZO-RAVARD (Venezuela) said that the documentation placed before the Economic and Social Council on the question under discussion had amply demonstrated the need to increase the flow of private capital to the under-developed countries as a means of furthering their economic development. Venezuela had been a sponsor of Council resolution 512 B (XVII) which, in offering recommendations to both capital-importing and capital-exporting countries, recognized the need for joint rather than unilateral action.

2. The basic recommendation to capital-importing countries was that they should improve the investment climate. To do that economic, legal and psychological factors would have to be taken into account. The recipient countries should not be subjected to any kind of pressure but should, for their own benefit and of their own accord, seek to make the conditions for foreign capital investment as attractive as possible.

3. The recommendations to capital-exporting countries were equally important, especially those embodied in subparagraphs 2 (d) and (e) of Economic and Social Council resolution 512 B (XVII). The emphasis placed on the economic development of the under-developed countries and the need to harmonize investments with their national interests, as enunciated in paragraph 5 of the resolution, should be constantly borne in mind by capital-exporting countries.

4. The Venezuelan delegation had supported the recommendations embodied in Council resolution 512 B (XVII), realizing, of course, that they should be supplemented by other methods of financing the economic development of the under-developed countries, and his delegation would vote for them at the present session of the General Assembly. He shared the reservations expressed by the Australian and Yugoslav representatives

(325th meeting) about the Haitian draft resolution (A/C.2/L.225). The request made to the Secretary-General in the joint draft resolution (A/C.2/L.241) should not involve any great expenditure.

5. Mr. KAYALI (Syria) said that the discussion had shown that there were two opposing schools of thought. Some representatives maintained that private foreign capital was essential for the economic development of the under-developed countries and that it brought various economic and social benefits in its wake, while others contended that, because foreign private capital was concerned only with maximum profits, it hindered rather than helped the under-developed countries. There was some truth in both arguments and it would be wiser to concentrate on the common ground between them rather than to oppose the two extremes. A solution could be found in practice if an international agency, enjoying the confidence of both capital-exporting and capital-importing countries, were established to promote foreign private investment. The agency would act as a link between the two groups of countries and would see to it that their interests were harmonized. The germ of such a scheme was to be found in the Haitian draft resolution but it was too early at present to take any decision regarding the establishment of such an agency.

6. Mr. UMARI (Iraq) thought that public and private capital both had a role to play in the development of the under-developed countries. Capital investment required measures by capital-exporting and importing countries for the mutual advantage of both. Both should show tolerance for one another and it had been unfortunate that a few isolated cases of unfair practices by both groups of countries had been grossly exaggerated.

7. Although Iraq derived considerable royalties from its oil resources, further capital investment was necessary. The Government had therefore set up a departmental committee to draft new legislation to encourage foreign investment. It was hoped that the new legislation, which would take recent international developments and discussions in the United Nations into account would soon be enacted.

8. His delegation was greatly interested in the Haitian draft resolution, but felt that certain recent developments in regard to international financing should be taken into account. The proposed international finance corporation, for instance, could usefully carry out some of the functions envisaged in the Haitian draft resolution. Besides providing capital, the corporation would act as a clearing-house for capital-exporting and capital-importing countries. The Committee should therefore reconsider the question in the light of the recent United States decision regarding the international finance corporation, which had changed the whole picture.

9. Mr. GARCIA (Philippines) pointed out that private foreign capital could only play a supplementary role in financing economic development and that reliance had primarily to be placed in other means. That did not mean

that the possibilities of private investment should be overlooked; on the contrary, efforts should be directed towards more practical action at the international level. For that reason his delegation had consistently supported the establishment of the Special United Nations Fund for Economic Development and of the international finance corporation.

10. In order to attract private foreign capital into Asia, with its ever-growing population and its enormous problems, substantial investments of public capital would have to be made before a semblance of stability, order and security could be obtained. That was why relatively little foreign capital had been invested in Asia and why investors preferred comparatively developed areas like Canada and Western Europe.

11. His Government had adopted a liberal policy towards foreign investment in industries that could be integrated with the national development programme. Its policy was designed to ensure the productive use of external capital to promote economic development. Every incentive was given to direct foreign investment into desirable productive industries. Foreign capital was given reasonable assurances that it would not be treated unfairly, and was protected against dumping. There were liberal provisions for the repatriation of profit and capital. The Philippine Constitution had also been amended to grant United States citizens and corporations the same rights as Philippine citizens and corporations in the development of natural resources and the operation of public utilities. The Philippine Congress had also passed a law granting full exemption from taxation to all new and necessary industries up to the end of 1958 and exemption on a diminishing scale up to the end of 1962.

12. So far that policy had not yielded the expected results; the modest economic gains in the Philippines since the war had been due to the mobilization of domestic savings and to loans and grants-in-aid. There had been no large-scale direct investment of foreign capital, but it was hoped that the situation would improve in the near future.

13. Many delegations had placed the onus of attracting foreign capital on the under-developed countries, but the capital-exporting countries had to share the responsibility. It was gratifying to note that the latter were making serious studies to promote investment abroad. The character of foreign private capital was changing; it was becoming conscious of its role in helping to raise living standards by the development of natural resources. It was possible for foreign private capital to enter into a mutually advantageous relationship with the recipient country.

14. He supported Economic and Social Council resolution 512 B (XVII) and the Haitian draft resolution (A/C.2/L.225), but hoped that a way would be found to present a single text.

15. Mr. CARANICAS (Greece) considered that the Secretary-General's report entitled *The International Flow of Private Capital 1946-1952* (E/2531) was a valuable analysis of the international flow of private capital. In many countries a substantial amount of foreign financing was required to supplement their domestic resources and ensure the success of their economic development plans. Economic activity in most of the under-developed countries remained at a level incompatible with the needs of their populations.

16. As international economic co-operation was still at the formative stage, there was a real danger that the disparity between standards of living in the under-devel-

oped and the industrialized countries would widen. No one would disagree with the Byelorussian representative's remark (299th meeting) that the economic development of under-developed countries should be financed mainly from domestic resources and that foreign capital should play only a complementary role, but in many countries net capital formation, even including investments from abroad, was less than 5 per cent of the national income, whereas, in the industrially more advanced countries, local capital formation alone amounted to at least 10 per cent of the national income.

17. The problem of many less developed countries was to increase the rate of local capital formation without lowering the standard of living or causing inflation. The low *per capita* income made it difficult to increase savings. In addition, savings were not always used for productive investment. Investors were often hesitant to participate in new enterprises, despite the improvement in economic conditions during the past year.

18. Even if domestic savings were fully mobilized, additional investment was required to solve long-term economic problems. In Greece the enactment of special legislation relating to foreign capital and economic stability and a high level of production had created a more favourable atmosphere for private foreign investments.

19. The current situation, as described in the Secretary-General's report on the international flow of private capital and in his memorandum on action taken to stimulate the international flow of private capital (E/2546), was not very encouraging. The flow of foreign capital was slowing down. The United States Department of Commerce publication *Factors Limiting U.S. Investment Abroad* contained, in part 2, an interesting analysis of the views of United States businessmen with respect to the role of the United States Government in private foreign investment. It was encouraging that the first of the businessmen's recommendations had already been accepted in principle, by the United States authorities. On 23 November 1954, the senior United States representative at the fourth extraordinary meeting of the Inter-American Economic and Social Council had given the assurance that he would propose to Congress that a 14 per cent tax credit be granted on income earned by United States corporations operating abroad. A second recommendation referred to trade barriers and in that connexion it was gratifying to note that the policy of the United States Government pursued a gradual and selective revision of tariffs.

20. The removal of trade barriers by the United States would perhaps contribute less to a better flow of private capital than to the international convertibility of currencies. Exchange restrictions and multiple rate systems were a constant threat to investors. Contemporary economic problems could not be regarded as solved until the major currencies of the world were convertible and until world trade was conducted with a minimum of restriction and discrimination.

21. He believed that, although the dollar gap had been filled for the time being by United States foreign aid, investments and other expenditure abroad, there was, as yet, no satisfactory long-term solution of the underlying problem of the United States payments surplus. He agreed that there was little point in discussing the merits of private as compared with public capital; both had constructive parts to play in economic development.

22. He accordingly supported Economic and Social Council resolution 512 B (XVII).

23. Mr. OFER (Israel) said that Israel had been unable to finance large-scale economic development exclusively from domestic capital resources. The attraction of foreign investment capital was therefore vital to its continued development. The investment of the required amounts of capital in suitable enterprises might shorten the time needed for the achievement of Israel's purpose, the establishment of a democratic and viable society.

24. In the past, investors in Israel had encountered difficulties which were not, perhaps, experienced in other countries where more normal conditions prevailed. The shortage of foreign currency, for example, had obliged Israel to maintain an import licensing system and foreign exchange control. In March 1950 Parliament had passed a law to encourage the establishment of enterprises and capital investments which would enhance Israel's productivity or promote its exports.

25. The investment centre, established under that law, encouraged investments from abroad and partnerships between foreign investors and Israel enterprises. Such an arrangement offered the foreign investor special advantages by enabling him to acquire a share in a going concern, while the influx of new capital enabled local industry to replace obsolete equipment and introduce new lines of production.

26. The investment guarantees against certain non-business risks offered to investors by the Governments of certain capital-exporting countries were an important device for the encouragement of private investment in under-developed countries. Israel had concluded an agreement with the United States providing for such guarantees.

27. He supported Economic and Social Council resolution 512 B (XVII). He also shared the Australian representative's views (325th meeting) that the main purpose of the Haitian draft resolution (A/C.2/L.225) was expressed in the Council resolution. His delegation was also in favour of the draft resolution on international tax problems (A/C.2/L.241).

28. Mr. PSCOLKA (Czechoslovakia) said that his delegation believed that the under-developed countries could best finance their economic development by mobilizing domestic capital and by expanding international trade. Foreign private capital could play a complementary part, but should not be conditional on the granting of favours which would constitute interference in the national affairs of the country concerned. Foreign investors were primarily interested in raw materials and tended to concentrate on the production of a single commodity that offered the prospect of large profits. As a result of the fact that foreign investments were concentrated on the sectors of the economy which offered the largest profits, they could not contribute to the development of those sectors on which the improvement of the living standards of the population primarily depended.

29. The comments of the countries which were exporters of private capital on the subject of a "favourable climate" for investment had shown that they demanded far more than they had the right to expect in return for the capital they invested in under-developed countries; they not only wanted extremely high profits but also wanted unfair privileges and the right to control policy. Moreover, the interests of foreign private investors obviously did not coincide with those of the under-developed countries; consequently, foreign private capital could at best serve only as a subsidiary means of promoting the balanced economic development of under-developed countries.

30. Economic and Social Council resolution 512 B (XVII) reflected the interests of the capital-exporting countries only. For that and for other reasons, which the Czechoslovak delegation had explained in detail at the seventeenth session (766th meeting) of the Council, he could not support the resolution.

31. Mr. FISCHER (Union of South Africa) said that he was ready to endorse most of the recommendations in the draft resolution which were included in Economic and Social Council resolution 512 B (XVII). Indeed, his Government's policy to attract private capital from abroad embraced every type of action mentioned in paragraph 1 of that resolution which was addressed specifically to capital-importing countries, of which his country was one.

32. He believed that his country provided a classic example of the beneficial developments brought about by an abundant flow of private capital from abroad. Those developments were very different from the gloomy picture of exploitation and exhaustion of natural resources drawn by some representatives. Foreign private capital had played an invaluable part in his country's rapid economic and social progress; it had helped to make possible the diversification of the national economy, of which industry, excluding mining, had in recent years become the most important branch. Nationals of the Union of South Africa had been obtaining a continuously increasing share in the assets of concerns which had been established in his country with capital obtained from abroad, and the headquarters of several of those concerns had recently been transferred to the Union.

33. He had doubts concerning paragraph 5 of the resolution adopted by the Economic and Social Council, and in particular, concerning the use of the word "normal". The paragraph appeared to be designed to protect established companies at present enjoying a monopoly in capital-importing countries from the competition of new companies established with private capital from abroad. If the paragraph merely meant that established enterprises should be free to expand their activities, the point was so obvious that the paragraph should be deleted.

34. Turning to the Haitian draft resolution, he agreed with the Iraqi representative that the situation had changed completely since the draft resolution had first been proposed. The third paragraph of the preamble, on which the whole draft resolution appeared to be based, was no longer valid in view of the United States Government's recent announcement of its readiness to participate in the proposed international finance corporation. He wished to associate his delegation with the reservations made at the preceding meeting by the Australian representative regarding the draft resolution.

35. His delegation had not yet formed any definite views on the seven-Power draft resolution on international tax problems (A/C.2/L.241); however, he noted that its purpose seemed to be to annul the Economic and Social Council's decision, contained in resolution 557 C II (XVIII), that the Fiscal Commission's studies on the subject be discontinued. If that was its purpose, it should be stated clearly.

36. He was sorry that the Committee had so many draft resolutions before it. The fewer recommendations the General Assembly made, the more attention people would pay to such concrete recommendations as it did make.

Mr. Umari (Iraq), Vice-Chairman, took the chair.

37. Mr. O'NAGHTEN (Cuba) drew the Committee's attention to the fact that Economic and Social Council resolution 486 B (XVI), mentioned in the first paragraph

of the seven-Power draft resolution, had originally been proposed by the United States delegation. It had been suggested that if the General Assembly were to adopt the draft resolution, it would in effect be censuring the Economic and Social Council for its decision to terminate the activities of the Fiscal Commission. Nothing could be further from the truth; the draft resolution did not provide for the re-establishment of the Fiscal Commission. Moreover, there could be no doubt regarding the usefulness of further studies of the taxation levied by capital-exporting countries on income from investments in under-developed countries. The authors of the draft resolution had not indicated the precise form which those studies should take in view of the radical changes relating to such taxation at present under consideration, and because they relied on the Secretariat to produce studies which would be satisfactory to all concerned.

38. One of the main objections raised against the Haitian draft resolution was the argument that international agencies, such as the International Bank for Reconstruction and Development, could not be expected to provide an assurance that a given investment project was economically sound. He did not consider that argument to be valid; the Bank, for example, had sufficient experience to be able to make such a statement. Moreover, the Bank had offered its services, which included analyses of a country's economy and the submission of specific recommendations. It would certainly not be required to give an absolute guarantee that the projects in question would be successful. In order to put the Haitian representative's proposal into practice the Bank needed only to increase its efforts on behalf of the under-developed countries without actually increasing its loans. However, as he was not sure of the real possibilities of his idea, the Haitian representative had asked the General Assembly only to study, not to approve it.

39. In view of the need for increased investment in under-developed countries, his delegation felt that it was necessary to explore every possibility of obtaining that result. It had been argued that the text of resolution 512 B (XVII) submitted by the Economic and Social Council completely covered the subject of the Haitian draft resolution; if it did, it was not sufficiently specific in that respect. There was, on the other hand, considerable weight in the argument that if the Haitian draft resolution were adopted in its present form it might result in a duplication of the studies that would be undertaken in connexion with the proposed international finance corporation. For that reason the desirability of immediately carrying out the studies suggested by the Haitian representative should be weighed carefully.

40. Mr. CHAUVET (Haiti) said that he was happy to note that there was support for his proposal that the Secretariat be requested to study practical methods of stimulating the flow of private capital to under-developed countries. If it adopted the text of the resolution submitted by the Economic and Social Council, the General Assembly would be doing little more than advertising the under-developed countries' need of capital. He had submitted his draft resolution (A/C.2/L.225) because he was convinced that the expert economists in the Secretariat, who could obtain valuable advice from bankers and businessmen, would be able to provide the General Assembly with useful suggestions if they studied the principles laid down in the draft resolution. The draft resolution was not put forward as a magic cure, but the practical studies outlined in it would, he believed, play a useful part in stimulating the flow of private capital to under-developed countries; in any case no harm could be done by undertaking such studies.

The meeting rose at 12.55 p.m.