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Chairman: Mr. Jorge Pablo FERNANDINI (Peru).

AGENDA ITEM 42

External financing of economic development of the developing countries (continued) (A/6703 and Corr.1, chap. V, sect. I; A/6703/Add.1, chap. IV; A/6848, E/4408/Rev.1):

(a) Accelerated flow of capital and technical assistance to the developing countries: report of the Secretary-General (E/4274 and Add.1, E/4293 and Corr.1 and Add.1 and 2, E/4327, E/4371 and Corr.1, E/4375);

(b) Outflow of capital from the developing countries: report of the Secretary-General (E/4374 and Add.1 and 2 and Add.2/Corr.1)

1. Mr. KLU (Togo) said that the resolutions of the Economic and Social Council and the recommendations of economic conferences stressed the need for the developing countries to build a national infrastructure capable of absorbing the external funds provided and to mobilize their domestic resources. His own country was doing its utmost to meet those requirements. Togo had a population of 1.7 million, which was increasing at the rate of 2.6 per cent a year. Its main source of livelihood was agriculture, which accounted for over 50 per cent of the gross domestic product. The economy was, in fact, largely dependent on exports of primary commodities. The only industries were small processing industries, and the exploitation of the country's mineral resources was as yet in its infancy. A first five-year development plan had been launched in January 1966, the aims of which were to balance the budget, to create an infrastructure for development and to raise national income to 41,400 million francs by 1970. The success of the plan was, however, dependent on the execution of projects financed by external resources.

2. Those developing countries which had suffered long periods of colonial exploitation were trying to create a new order in which the right of all peoples to share in the riches of the world was accepted. The targets fixed for the United Nations Development Decade were evidence that the international community as a whole was resolved to unite its efforts for the establishment of that new order. The first session of the United Nations Conference on Trade and Development (UNCTAD) had established what might be described as the principles of an economic charter and had made recommendations regarding the volume of funds to be transferred from the developed to the developing countries, the rate of interest on loans to the latter countries and the reduction of their debt-servicing burden. Despite those recommendations, the situation of the poorer countries remained critical. The flow of aid to the developing countries had increased very little since the beginning of the Decade, their terms of trade had steadily deteriorated and the high cost of loans had greatly reduced the net flow of capital. Although the ability of the developed countries to provide development finance was affected by a number of domestic factors, as was pointed out in the Secretary-General's report entitled "Factors affecting the ability of developed countries to provide resources to the developing countries" (E/4375), the chief cause of the stagnation in the flow of aid was the failure of the developed countries to incorporate the principle of the harmonious development of all countries in their national policies; those countries were still resisting the developing countries' demands for a fairer international division of labour.

3. The problem was aggravated by the fact that debt servicing was a major cause of the outflow of capital from the developing countries, since aid in the form of loans would continue to constitute much of their development finance for years to come. His Government had, in fact, taken measures to create the necessary climate of confidence for the investment of foreign public and private capital by guaranteeing fair tax treatment and the right to transfer capital and income. Although his delegation did not wish to minimize the importance of bilateral aid, particularly when no conditions were imposed by the donor, it considered that the interests of the developing countries were best served by capital provided through multilateral institutions; as the report of the Economic and Social Council had indicated (A/6703 and Corr.1, para. 133), only one tenth of such financial transfers had come from international sources during the first half of the United Nations Development Decade. His delegation therefore hoped that the developed countries would co-operate in the provision of resources for the United Nations Capital Development Fund.

4. In conclusion, he expressed the hope that those countries which were spending huge sums on arma-

ments would come to realize that the peace of the world would be safeguarded much more effectively by eliminating hunger, ignorance and disease, and so removing the cause of future tensions.

5. Mr. AL-ISA (Iraq) said that Governments had long been placing increasing emphasis on economic, financial and monetary policies as tools for promoting economic well-being at the national level, but it was not until relatively recently that those tools had been applied to the task of creating a healthy and viable world economy. That goal was, however, difficult to attain, owing to the present unsatisfactory world economic structure.

6. The developed countries had referred to balance-of-payments and budgetary difficulties to explain why they had not made greater efforts to attain the various targets relating to the volume of development aid and to the terms and conditions on which it should be granted, particularly those set forth in UNCTAD recommendation A.IV.4.1/ Although those arguments had some validity, they were not entirely convincing. The developed countries' balance-of-payments difficulties resulted mainly from their reciprocal trade and financial relations and not from their transfers of resources to developing countries. Where budgetary difficulties were concerned, it was true that a developed country's budget had to be supported by the electorate, which was naturally more interested in domestic programmes than foreign aid. However, information campaigns could be undertaken in those countries to familiarize the public with the developing contries' problems and to show that an effort to close the gap between rich and poor nations was not only a moral duty but was in the interests of the international community as a whole. Many organizations were already working along those lines: for example, in 1961, the Institute of International Law had established a commission to deal with the legal status of foreign investments and safeguard the developing countries' legitimate interests.

7. It was disheartening to learn that, in one developed country expenditure on armaments had reached 10 per cent of the gross national product, whereas the development aid target of 1 per cent was being only reluctantly achieved. He hoped that, pending the success of the disarmament talks in Geneva, a scheme would be drawn up to channel the funds released by disarmament into development assistance.

8. Ideally, a developed country's budget should take account of both domestic needs and the legitimate demands of the developing countries. That was, however, a long-term objective which would only be achieved when the developed countries realized that development aid was not only a moral responsibility but an imperative dictated by the principles of enlightened self-interest. As a short-term objective, international organizations should concentrate on efforts to convince Governments of the need for budgetary and extra-budgetary measures to increase the flow of development aid.

9. With regard to the reverse flow of capital from developing countries, his delegation was appalled at the rapid rise in the developing countries' foreign indebtedness and the concomitant increase in their debt-servicing burden, an increase which placed a heavy strain on the foreign currency reserves built up mainly from export earnings. There had also been a regrettable increase in tied aid, which could perhaps be partially remedied by applying the principle of reciprocity, so that the creditor country would use tied loan repayments to purchase goods in the debtor country. Enough information had now been gathered on the international flow of capital to warrant the speedy introduction of an international code regulating that flow for the good of the international community as a whole. Failure to introduce such a code might lead to an increase in bilateral trade and in the formation of de facto or de jure protective areas.

10. Mr. WONG (China) said that the fundamental cause of the increasing disparity between the economies of the developed and the developing countries was the reluctance of the peoples and Governments of the richer countries to increase the flow of capital to the poorer nations. Agreement on the terms of aid could be achieved if there were an honest desire to help the less fortunate countries, but the richer countries still had not realized that foreign aid was an investment which would bring them long-term financial, social and political benefits. The United Nations could provide a useful service in that connexion by disseminating more information in developed countries concerning the potential advantages of foreign aid to the donors.

11. In the process of development, developing countries inevitably became, to some extent, competitors of developed countries. Although economic development led to larger consumption, no national development programme could overlook the need for import substitution and the expansion of exports. The importance of liberalizing trade was therefore obvious and donor countries should realize that to give aid and at the same time apply import restrictions reduced the efficacy of that aid.

12. Practical considerations dictated that, undesirable as the tying of aid might be, it had to be accepted; it was, in fact, widely accepted in the form of export credits. His delegation believed that a developed country which benefited from the non-tied aid of another should apply some of the resulting surplus inflow to increasing or relaxing the terms of its own foreign aid, and that tied aid should be given on easier terms than unconditional aid. Similarly, if aid were given in the form of loans rather than grants, the donor countries should consider ploughing back a major part of the repayments in the form of additional aid, just as many private foreign investors reinvested their earnings in the country in which they were earned.

13. In the past, the poor credit-worthiness of developing countries had often been cited as a reason for not increasing aid to them. His delegation urged donor countries to take as liberal an attitude as possible to the credit-worthiness of recipient countries; those countries, on the other hand, should

1/ See Proceedings of the United Nations Conference on Trade and Development, vol. I, Final Act and Report (United Nations publication, Sales No.: 64.II.B.11).

maintain strict control of the way in which their scarce resources were used.

14. Mr. ENDREFFY (Hungary) recalled the statement made by the representative of Australia at the 1112th meeting that the group of developed countries had in 1966 given more than $10,000 million in aid to the developing countries. On the basis of the information in the documents before the Committee, his delegation doubted whether the real value of that aid was at all comparable with that figure if outflows of the same magnitude as those which had occurred in 1965 were taken into account.

15. In 1965, the flow of resources from the developed capitalist countries to the developing countries had amounted to $9,000 million. In that year, as the progress report of the Secretary-General entitled "Outflow of capital from the developing countries" (E/4374) and part One of the World Economic Survey, 1965[2] showed, the outflow of investment income and debt servicing payments had amounted to $8,240 million; the remainder was reduced by $380 million owing to the deterioration in the developing countries' terms of trade. In other words, the total effective contribution of the developed countries to the financing of the poorer countries' economic development had been $380 million.

16. The United States, which had, in 1965, provided 58 per cent of the total flow of those development resources had, in 1966, sharply reduced the supply of non-military resources to developing countries and to the multilateral institutions which dispensed those resources. Expenditure on the war in Viet-Nam and on military bases had certainly contributed to the balance-of-payments difficulties which had served as a pretext for that action. The underlying causes were, however, political, rather than economic they arose, in fact, from the very nature of imperialism.

17. Developments such as those made it imperative for the developing countries to make every effort to channel their domestic savings into productive uses and to make the necessary changes in income distribution and tax systems. The Secretariat could help them in that effort by preparing the necessary studies of the problems involved.

The meeting rose at 4.10 p.m.

[2] Financing of Economic Development (United Nations publication, Sales No.: 66.II.C.1.).

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