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CONTENTS

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, A/C.2/L.961, 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. MARDOVICH (Byelorussian Soviet Socialist Republic) said that, as in the past, almost all the speakers had attached great importance to external sources of financing. That was quite understandable, for the developing countries could not carry out their economic development programmes with the means now at their disposal. Those countries were suffering substantial losses as a result of the excessive profits and interest, now amounting to $9,000 million annually, amassed by foreign private investors. The deterioration in the terms of aid, as analysed by the Secretary-General in his note (E/4408/Rev.1), showed that the Western Powers were not giving effect to the decisions of the United Nations Conference on Trade and Development (UNCTAD). Private foreign investments were governed solely by the law of maximum profits and were channelled to extractive industries at the expense of transformation industries. In defiance of recommendation A.IV.13 of the Final Act of the first session of UNCTAD,[1] foreign private investors and the aid programmes of certain countries were usually opposed to the development of the public sector. Steps should be taken to put an end to those discriminatory practices.

2. The loans granted by the socialist countries carried an interest rate of 2.5 per cent and were repayable in from twelve to fifteen years. Those conditions did not impose an excessive burden on the debtor, for the loans were, in principle, repaid with the profits earned by the enterprises they had helped to build. Amortization and interest payments were ordinarily made in the form of deliveries of the debtor country's traditional export goods or in local currency, which was then used for purchases in the latter country. The agreements concluded with a number of countries provided for the amortization of loans through the delivery of goods manufactured by the enterprises built with the aid of the loans.

3. Acceleration of the flow of capital to the developing countries was not in itself a decisive factor, for in practice it increased the debt burden of those countries and made them increasingly dependent on foreign capital. What was essential was to limit the outflow of capital from those countries, which deprived them of resources needed for their economic growth. He recalled the terms of General Assembly resolution 2169 (XXI), dealing with that question, and said that the Secretary-General's progress report entitled "Outflow of capital from the developing countries" (E/4374) did not give a clear picture of the magnitude and rate of the outflow of capital from the developing countries. In his delegation's view, a detailed analysis of that phenomenon would facilitate the adoption of measures to remedy the situation in that sector of the international economy. The drafting of recommendations, which had been begun the previous year at the initiative of his delegation, concerning measures to reduce that outflow, should be continued, and provision should be made for periodic reports on the implementation of those measures.

4. Mr. WETTERGREN (Sweden) said that while the report entitled International Flow of Long-term Capital and Official Donations, 1961-1966 (E/4371 and Corr.1) referred essentially to the quantitative aspect of the flow of resources, the qualitative aspect of that phenomenon must also be borne in mind. The flow of resources was generally measured in relation to the "1 per cent target". That target was, however, ambiguous, for it was often referred to as an aid target for the economically advanced countries. On the other hand, what General Assembly resolution 1522 (XV) actually referred to was "international assistance and capital", and it was evident that all the financial resources made available to the developing countries could not be regarded as assistance proper. Development aid statistics reflected that lack of precision, for they often included a wide variety of transactions—public and private credits, bilateral aid, contributions to multilateral agencies, tied and untied aid, etc.—without

[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).

drawing the necessary distinctions. It would be desirable to measure the true assistance component of capital flows more accurately by giving a higher rating to transactions of an undisputable aid character (grants, contributions to international agencies and possibly untied loans). On the other hand, transfers containing a negligible aid element, such as short-term export credits, should not be included in those statistics at face value. He pointed out that the practice of aid tying tended to reduce the real value of aid received. Furthermore, as indicated in the report of the Secretary-General entitled "Factors affecting the ability of developed countries to provide resources to the developing countries" (E/4375), it was questionable whether the "tying" of aid reduced its effect on the capital-supplying country's balance of payments. He hoped that those considerations would check the present trend towards increased aid tying, as that practice now threatened to extend to multilateral assistance.

5. The growing indebtedness of the developing countries, which was analysed in the report of the Secretary-General (E/4374), demonstrated the need to soften the terms of official loans. The Swedish Parliament had decided that the repayment period for development loans should be increased from twenty to twenty-five years and the grace period from five to ten years. The rate of interest remained unchanged at 2 per cent. Furthermore, Sweden could now grant loans to developing countries on conditions similar to those granted by the International Development Association (IDA). The Swedish Parliament had also agreed to prolong the grace period for development credits already granted.

6. In conclusion, he appealed to the major donor countries to increase their contributions to IDA, without introducing restrictions or procurement rules which inhibited the most rational use of the funds available.

7. Mr. MARTIN WITKOWSKI (France) said that he would limit his remarks to agenda item 42 (b). The problem of the outflow of capital from developing countries was not an easy one which could be settled by categorical statements or denials. Some speakers had implied that in view of the scanty resources available to the developing countries, all capital outflows should be combated, limited or at least deplored. According to other speakers, the reverse flow of capital resulted from the exploitation of the poor countries by the rich countries and illustrated the factitious nature of the financial assistance provided by the latter. On the other hand, the advocates of total economic liberalism held that capital outflows were the inevitable outcome of the natural play of economic forces. His delegation considered that an important issue of economic policy was involved and that a careful analysis of the relevant phenomena would facilitate the choice by Governments of what action should be taken. The report of the Secretary-General (E/4374) was commendable on two scores. First, as a methodological and statistical study and a catalogue of economic policy measures designed to reduce capital outflows, it was properly cautious. Secondly, it demonstrated that the term "outflow of capital" actually covered three separate concepts—debt-servicing, flight of domestic capital, and income derived from foreign investment—all of which should be dealt with separately, since they represented different types of economic realities.

8. With regard to the indebtedness of the developing countries, the amount of a country's debt was less important than its capacity to service it in acceptable conditions, namely, by means of a rapid expansion of its economy and an increase in its exports. Some less developed countries might be able to accept a rapid increase in their foreign debt if their economies were expanding at a similar pace, whereas others, with a small foreign debt, might be experiencing serious economic stagnation and would be unable in the medium-term or long-term to repay their creditors. No solution therefore seemed broad enough to cover all cases, and comprehensive institutional arrangements, which were inevitably inflexible, seemed incapable of remedying the general situation. Foreign indebtedness must by its very nature be dealt with on a case-by-case basis. In extreme instances, where a total impasse had been reached, palliative measures must be sought on the basis of a direct understanding between debtors and creditors. Such measures, however, could obviously be resorted to only in exceptional cases. In other instances the status quo must be maintained with a view to strengthening the international credit rating of the countries concerned, which might need to borrow for many years to come. In the future, an effort should be made to improve the situation by softening the terms of aid. France granted more than 85 per cent of its public aid in the form of grants or grant-like contributions.

9. The report of the Secretary-General identified a second source of capital outflows, namely, outflows of indigenous capital, but a distinction had to be made in that respect. The outflow might consist of funds deposited and held in various developed or other countries by the central or commercial banks of the developing countries. Such funds were immobilized abroad either because the central banks deemed it advisable to reinvest part of their foreign currency reserves in the markets of the developed countries or because the financial institutions believed that they should keep in other countries sufficient working capital for the smooth functioning of their current commercial transactions. In any event, the sums involved were usually minimal. The situation was quite different, however, when capital outflows of that type assumed abnormal proportions as the result, for instance, of an excessive rise in interest rates on certain financial markets. In such circumstances it would be correct to speak of a flight of capital or savings from developing countries to a specific developed country, and there was no reason why appropriate measures could not be taken by the less developed countries to check such movements. In the case of capital held abroad by nationals of developing countries, it had to be recognized that, in most cases, such capital had been transferred from the developing countries illegally. It might also happen, however, that such funds, if transferred in foreign currency, were re-lent to the countries concerned on terms which, however advantageous to the owner of the capital, were damaging to the economy of the borrowing country. In either case, there was not a net loss to the developing countries, and they were entitled

to take the necessary corrective measures. Their financial authorities should be able in such matters to rely on the co-operation of the appropriate authorities of the developed countries that might stand to gain from such illicit operations.

10. The last type of capital outflow concerned reverse flows arising out of direct investments, consisting mainly of the repatriation of profits or similar transactions. Failure by a developing country to control foreign capital invested and operating in its territory was equivalent to alienating a part of its sovereignty and failing in its economic policy responsibilities. It was also true, however, that there could be no hope of obtaining private capital unless it were assured of certain minimum gains.

11. The report entitled Measurement of the Flow of Resources to Developing Countries (E/4327), prepared by a group of experts, seemed to be exactly the kind of document the bodies concerned with economic co-operation needed. With regard, however, to the measurement of the aid target of 1 per cent fixed by UNCTAD at its first session,[2] his delegation did not believe that the gross domestic product, rather than the national income of each developed country, should be taken as the denominator of the fraction. Whatever the merits of the two arguments advanced by members of the group of experts, independent experts were not competent to amend the terms of a resolution solemnly adopted by deliberative organs. His delegation therefore considered that the decisions made on the subject at Geneva should be upheld.

12. Mr. VISESSURAKARN (Thailand) said that, in order to develop their economies, the developing countries needed, among other things, a substantial inflow of capital from the developed countries. The flow of such capital, which in 1961 had amounted to 0.83 per cent of the gross national product of the developed countries, was, however, declining steadily, with the result that in 1965 the figure had only been 0.70 per cent.

13. His country attached great importance to foreign private capital investment. Such investment generally brought with it technical knowledge and created training opportunities. In order to increase the flow of such capital, special measures were required on the part of both developed and developing countries. The former could, for example, give tax incentives to companies which invested in developing countries, defer taxes on investments in property and in technical services, give support to the financial agencies of developing countries and provide guarantees against certain non-business risks. Steps must also be taken to ensure that foreign private investors did not exert a dominating role in the economy of the developing countries, which, however, should endeavour to give every encouragement to the inflow of foreign private capital. His country had taken active steps to that end in the form of measures to provide investors with a number of advantages, including some of a fiscal nature.

14. As information had an important part to play, his delegation believed that the United Nations might set up a clearing-house for information on investment opportunities in the developing countries.

15. The documents submitted by the Secretariat showed that trends in the flow of capital remained uncertain. It was to be hoped that, in the long run, an increase in per capita income in the developing countries, an improvement of their economic and social infrastructure, stabilized political conditions and growing world demand for raw materials and food would result in an expanded flow of capital from the developed to the developing countries.

16. Mr. ASLAM (Pakistan) said that, while it was true that the developing countries themselves were primarily responsible for bridging the gap which divided them from the developed countries, they clearly could not dispense with external financing. The documents prepared by the Secretariat, however, contained facts and figures which were not encouraging in that respect. For instance, the flow of capital to the developing countries in 1966 had amounted to only 0.64 per cent of the gross national product of the developed market-economy countries. Moreover, the position of the developing countries was aggravated by their debt-servicing burden. The Development Assistance Committee of the Organization for Economic Co-operation and Development had recommended in 1965 that countries which were lending at rates of interest exceeding 3 per cent should reduce their rates to that level but not that countries granting loans at very low interest rates should increase their rates. His delegation considered the problem to be a most important one calling for effective measures.

17. The report of the Secretary-General (E/4375) put forward some interesting suggestions to the developed countries so as to enable them to overcome the difficulties encountered in increasing the flow of their resources to the developing countries. It was for that reason that his delegation had joined those countries which had submitted draft resolution A/C.2/L.961.

18. More aid should also be supplied to the developing countries in the form of low-interest loans, and the developed countries should consider granting preferential treatment to the developing countries' products.

19. In conclusion, his delegation hoped that, in view of the useful work done in the past by IDA, the funds of that body could be replenished in the near future. The General Assembly should endorse the appeals made in that regard by the Economic and Social Council and the Trade and Development Board.

20. Mr. AL-RIFAE (Kuwait) said that the bulk of the capital invested in the developing countries was invested in natural resources. That applied, for instance, to the Middle East, where most of that capital was invested in the oil industry; on the other hand, in countries in the same region which had no oil resources, investment was almost non-existent. Oil companies had in the past taken little account of the need to finance economic and social development on a regional basis. A more favourable trend seemed, however, to be developing in that connexion, and it was to be hoped that the single aim of making enor-

[2] Ibid., annex A.IV.2.

mous profits quickly would gradually give way to a willingness to establish relationships based on a spirit of co-operation. The developing countries, for their part, should try without undermining their freedom of action to reduce restrictions on the repatriation of profits and capital. Similar measures could be taken with regard to double taxation.

21. There should, moreover, be increasing scope for the granting of loans at low interest rates and for reducing tied aid. In that respect, multilateral aid had obvious advantages over bilateral aid, since it should be based on the principle of "from each according to his means and to each according to his needs".

22. Mr. SZABLEWSKI (Poland) said that the present economic situation of the developing countries was essentially due to the structure of economic relations between them and the developed countries. External financing was one aspect of those relations and should be considered in its full complexity, especially from the angle of the outflow of capital from the developing countries. It was important to find out the extent to which external financing was contributing positively to the economic growth of the developing countries and the impact it was having on their economies. In 1965, the outflow of capital from the developing countries had reached $7,500 million and, according to the International Bank for Reconstruction and Development (IBRD), the increase in the burden of debt servicing would completely offset the total inflow of capital to those countries in a little more than fifteen years. It was questionable, therefore, whether the finance made available to the developing countries really constituted aid, in view of the terms on which it was provided. Furthermore, the export earnings of the developing countries, which were their main source of financing, were adversely affected by unfavourable terms of trade. In those circumstances, it was quite evident how important it was to make every possible effort to enable the developing countries to mobilize domestic finance. Poland was an example of a country which had achieved industrialization primarily by means of its own resources.

23. In its relations with the developing countries, Poland endeavoured to make the maximum contribution to their economic development. That new type of co-operation was, however, still relatively small in scope by comparison with the economic relations between the developing countries and the Western countries. It was plain that action was needed to change the colonialist and neo-colonialist nature of those relations. It was essential also to put an end to the wars of aggression, policies of boycott, blockades and discrimination of every kind which restricted production and trade. His delegation believed that it was through very broad and unrestricted economic co-operation that the best conditions would be created for the flow of external resources aimed at accelerating economic development.

24. Mr. MARAMIS (Indonesia) considered that with the Agreed Statement on the Problems of Development adopted in April 1967 by the UNCTAD Committee on Invisibles and Financing related to trade,3/ a broad consensus had been reached on such issues as the volume, terms and conditions of development assistance. The need now was to see how best to implement the Agreed Statement. In the General Assembly, the Foreign Minister of Indonesia had pointed out (1572nd plenary meeting) the need for the highly industrialized countries to demonstrate the political will to take the steps that were urgently needed, and had noted that the second session of UNCTAD would provide an indication of their attitude.

25. The Agreed Statement on the Problems of Development noted that the volume of external assistance had moved further away from the 1 per cent goal and that the trend was towards a hardening of the terms of aid. The cumulative effect of those factors merely increased the indebtedness of the recipient countries, further aggravated by the growing importance of suppliers' credits with high interest rates and short repayment periods. Moreover, the developed countries imposed certain conditions on the administration of their aid and the fact that the aid was often tied substantially reduced its value.

26. Now that the problems had been brought into focus, adequate solutions must be worked out and measures taken to assist the developing countries. The urgent need of those countries for increased aid was obvious and it was recognized that their absorptive capacity was far in excess of the current flow of aid. The development assistance target should be re-defined so as to represent 1 per cent of the gross national product of each developed country and should be calculated on the basis of actual disbursements of the various categories of financial resources specified in recommendation A.IV.2 of the Final Act of the first session of UNCTAD. The developed countries should also consider measures to overcome the real constraints that limited the transfer of resources. In that connexion, he was grateful for the understanding of the developing countries' problems shown by some of the developed countries, the Netherlands in particular. Over the short term, there was a need for compensatory financing along the lines recently initiated by the International Monetary Fund and those measures should be amplified, for example by extending the present time-limits for the repurchasing of drawings by developing countries. As to medium-term arrangements, efforts should be intensified to reach a consensus on a scheme of supplementary financing along the lines of the IBRD study.4/ The scheme to subsidize the payment of interest on loans to developing countries was very important and could well be worked out on a multilateral basis, though it was still possible for individual developed countries to work out special bilateral arrangements. Indonesia attached great importance to long-term measures involving the continuance of large-scale transfers of resources to the developing countries. In that connexion, member Governments should urgently take steps to replenish the resources of IDA and he hoped that the United Nations Capital

3/ See Official Records of the Trade and Development Board, Fifth Session, Supplement No. 3, annex II.

4/ Supplementary Financial Measures—a study requested by the United Nations Conference on Trade and Development, 1964 (International Bank for Reconstruction and Development, Washington, D.C., December, 1965).

Development Fund would be able to count on the participation of the developed countries.

27. His delegation endorsed the views expressed in the Agreed Statement with regard to private capital and Indonesia had enacted a Foreign Investment Law in 1967. It also supported measures aimed at softening the terms of loans. Terms of aid would also be improved if all lending after an agreed date conformed to the terms currently granted by IDA. Efforts must also be made to set a target date for the progressive untying of aid. The extent of a country's external indebtedness should be considered in the light of its debt-servicing capacity. The solution to that problem must take into account the special situation of each country concerned. Indonesia considered that any reform of the international monetary system should be undertaken on a world basis and, in that connexion, endorsed the idea of establishing a link between aid and additional liquidity. It was also imperative that the developing countries should participate from the outset in all future discussions on international monetary reform.

28. Mr. CHAMMAS (Lebanon) said that the growth of the developing countries had not attained the fixed rate of 5 per cent per annum and that the prospects for recovery seemed doubtful, especially as the volume of savings available to those countries was inadequate. The first United Nations Development Decade therefore seemed doomed to failure. The developed countries should not, of course, be made entirely responsible for that failure, although it was questionable whether their efforts had been sufficient. In any event, certain attitudes must be reviewed, and in that connexion, paragraph 54 of the report of the Secretary-General (E/4375) might constitute a fruitful basis for discussion.

29. It was clear from table 1 of the report (E/4375) that the target of 1 per cent fixed by General Assembly resolution 1522 (XV) of 15 December 1960 had, unfortunately, never been attained between 1956 and 1965. While the value of a quantitative target might be disputed, it was undeniable that in many cases it was the volume of aid that was important. In fact, if capital inflows were not to be wiped out by a reverse flow by 1975, no possible solution must be neglected. The interests of the developed countries were also involved, since they would find larger markets in developing countries with an increased economic potential. No one disputed the fact that the developed countries were experiencing balance-of-payments difficulties, but it was inadmissible that the solution of that problem should harm the interests of the developing countries.

30. Paragraph 89 of that report contained some interesting information on the difficulties which the developing countries were having in gaining access to the capital markets. That was a problem that should be studied more thoroughly. The proper course, in his view, was not to increase the number of multilateral financial institutions but rather to make rational use of the existing machinery, by giving, for example, IDA the resources it needed to function properly.

31. Mr. MYEMBWE (Democratic Republic of the Congo) said that it was unfortunate that the documents before the Committee had not dealt with the short-term problems of the developing countries, particularly that of the instability of the export earnings needed to carry out autonomous development plans. Since United Nations financial agencies and bilateral agreements dealt mainly with long-term projects, there was no financial machinery to protect the developing countries against that risk. It would therefore be advisable to study that problem in depth.

The meeting rose at 12.50 p.m.

Litho in U.N. 77201—October 1968—2,200