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Held at Lake Success, New York  
on Tuesday, 5 April 1949, at 11 a.m.

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Draft report on the mobilization of financial resources for economic  
development -- Part II: Foreign financing

PRESENT:

Chairman:

Mr. V. K. R. V. RAO

Vice-Chairman and Rapporteur:

Mr. Manuel BRAVO Jimenez

Members:

Mr. J. N. GUIMARAES

Mr. J. PATEK

Mr. A. P. MOROZOV

Mr. E. G. COLLADO

Representatives of specialized agencies:

Mr. E. LOPEZ-HERRARTE

International Bank for Reconstruction and  
Development

Mr. Van der VALK

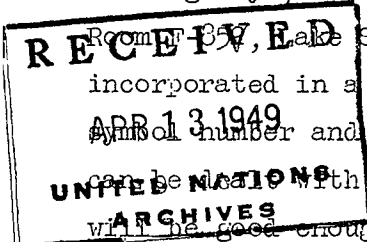
International Monetary Fund (IMF)

Secretariat:

Mr. A. DORTMAN

Secretary of the Sub-Commission

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DRAFT REPORT ON THE MOBILIZATION OF FINANCIAL RESOURCES FOR ECONOMIC  
DEVELOPMENT -- PART II: FOREIGN FINANCING

The CHAIRMAN informed the Sub-Commission that the Rapporteur had submitted some amendments to his draft for the second part of the report. The new document had not been translated into Russian, however. The original draft would therefore have to serve as a basis for discussion, to which the Sub-Commission could, if it so desired, add the proposed amendments.

Mr. MOROZOV urged that the Russian translation of the essential documents, and in particular of the amendments submitted by the Rapporteur, should be assured.

First paragraph of the original draft

The CHAIRMAN pointed out that the first paragraph of the original draft was not essential; he therefore proposed omitting it.

Mr. BRAVO Jimenez, Rapporteur, stated that the first paragraph was intended to link up two separate chapters of the report, dealing respectively with national financial resources, and foreign financing. If the report were not divided into two parts the paragraph obviously had no purpose.

Mr. GUTIERRAES shared the Rapporteur's point of view.

Mr. FATEK was in favour of retaining the first sentence of the paragraph.

Mr. MOROZOV thought it advisable to explain in the report the general principles accepted by the Sub-Commission and urged the retention of a link between the first and second parts.

The CHAIRMAN proposed that the first sentence should be retained and the remainder of the paragraph omitted.

/Mr. GUTIERRAES

Mr. GUTIARRAES thought that, if the Sub-Commission decided to retain all or part of the paragraph, it would be advisable to alter it slightly in order to stress the importance of foreign financing.

The CHAIRMAN favoured the omission of the whole paragraph. He pointed out that the first part of the report already contained the same provisions and he asked the Secretary of the Commission to read the sixth paragraph of the report.

Mr. MOROZOV then said that, as those provisions had already been included in the first part of the report, he did not insist upon the retention of the paragraph.

It was decided to omit the first paragraph of the original draft of Part II of the report.

Second and third paragraphs of the original draft

The CHAIRMAN suggested that the members of the Sub-Commission should study simultaneously the second and third paragraphs of the original draft; those two paragraphs had been replaced by paragraph 29 in the amended draft.

The Chairman proposed that account should be taken of the omission of the first paragraph by altering the beginning of the second paragraph to read: "As regards foreign financing, it is obvious that every country has the right to decide to what extent and in what form it wishes to receive such financing."

Mr. MOROZOV pointed out that the members of the Sub-Commission had agreed upon certain general principles; it was advisable to indicate them at the beginning of Part II of the report. He suggested that it should be definitely stated that foreign financing must respect the following three principles:

- (1) It must contribute to the development of national independence, in accordance with the provisions of the Charter;
- (2) It must contribute to the development of national, industrial and agricultural resources;
- (3) It must not be effected in any manner or under any conditions which undermined the national interests and sovereignty of the country,

/or be bound

or be bound up with the grant of political or economic advantages to capital-exporting countries.

The CHAIRMAN proposed to combine the second and third paragraphs, as the Rapporteur had done in the amended draft, by the retention of the text suggested by the Rapporteur or the adoption of a text bringing out the three principles defined by the USSR representative.

With that end in view, the Chairman suggested the adoption of the sentence he had previously proposed, to which would be added the following sentence: "Likewise, any country has the sovereign right to decide how to utilize its financial resources, whether it be in investments abroad or in its own territory." To those two sentences would be added paragraph 29 of the amended report, the beginning of which would be altered to read as follows: "The Sub-Commission wishes to stress, however, that the exercise of their sovereignty by countries exporting or importing capital must be subordinated to respect for the commitments which they have made under the Charter of the United Nations." The second part of paragraph 29 of the amended draft would be replaced by the text of the three principles defined by the USSR representative.

The Chairman was for postponing a decision on the second paragraph of the original draft until a new amended text was in the hands of the Sub-Commission's members.

#### Third paragraph of the original draft

The CHAIRMAN stated that the Rapporteur himself had suggested the deletion of the third paragraph and its omission should therefore be sanctioned.

It was so decided.

#### Fourth paragraph of the original draft

Mr. BRAVO Jimenez, Rapporteur, proposed the omission of the last sentence of the original text; he also suggested certain changes in the wording, which appeared in paragraph 30 of the amended text.

He thought that it would be preferable to replace the term "high-interest and short-term loans" by the term "high interest loans which were also, very often, of relatively short duration".

The CHAIRMAN thought that Mr. Bravo Jimenez's suggestion improved the text; it seemed to him, however, that it was not necessary to use the words "very often".

Mr. COLLADO did not share the Chairman's opinion, for there had been some long-term loans during the period mentioned; at the same time, he wondered what was meant by the term "of relatively short duration".

He felt, moreover, that the word "loans" should be replaced by a more appropriate term in view of the fact that during the period indicated a great part of the foreign investments made by the United States of America were not in the form of loans: the majority of them had not given rise to any repayment.

Mr. Collado admitted that there had been some high-interest and short-term loans, but they had suffered the fate they deserved. But even so, the last sentence of paragraph 30 of the amended draft did not take full account of the real situation.

The CHAIRMAN proposed the deletion of the last sentence of the paragraph.

Mr. COLLADO requested that the word "onerous" be replaced by the term "burdensome".

Mr. BRAVO Jimenez, Rapporteur, pointed out that the Sub-Commission, in its first report, had stressed the need for low-interest and long-term loans.

The CHAIRMAN proposed the retention of the first sentence of the paragraph and the amendment of the second sentence to read: "The Sub-Commission has already pointed out in its first report the importance of this factor with a view to reducing the burden of foreign loan service for underdeveloped countries and at the same time increasing guarantees of repayment to lenders".

He then suggested that the members of the Sub-Commission should postpone taking a decision on the paragraph in question pending the distribution of the new amended text.

Fifth paragraph of original draft

Mr. BRAVO Jimenez, Rapporteur, proposed certain changes. He suggested that the words "economic development" should be omitted from the first line of page 3 of the original draft and that the words "economic development and that" be deleted from the fourth line. In the fifth line he suggested that the words "appropriate conditions applicable to all of them" should be changed to "conditions appropriate to each."

The CHAIRMAN proposed that the following phrase should be inserted at the beginning of the first sentence of the paragraph: "In considering different forms of foreign financing, the Sub-Commission...".

Mr. MOROZOV thought that the Sub-Commission should not give a list of the various forms of foreign financing which could be used, but should rather state that all forms must be governed by the principles already established by the Sub-Commission.

The CHAIRMAN suggested that, as such a statement was already included in the part of the report which had been previously accepted, the sentence in question should be omitted.

It was so decided.

The CHAIRMAN then opened the discussion of the next sentence and called attention to the necessity for inserting before the text of the initial draft report some phrase which would form a link with the preceding sentences.

Mr. COLLADO proposed that the phrase suggested by the Chairman should be inserted in place of the sentence which the Sub-Committee had just decided to omit.

Speaking from a more general point of view, he said that in his opinion, the draft report could be criticized both for what it included and what it omitted. He particularly regretted that the ideas set out in his memorandum, and which he had upheld in the Sub-Commission, had not been included. For instance, it seemed to him that the importance of direct private investment had been undervalued; such investment could actually assist in developing private enterprise, improving the management of various concerns and introducing new techniques into underdeveloped countries.

/He found

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He found it difficult to vindicate such general observations in a sentence-by-sentence discussion of the draft.

The CHAIRMAN agreed wholeheartedly that it was difficult to introduce new ideas during a drafting discussion. His own point of view was radically opposed to that contained in the draft under discussion, and he wished to reserve the right to submit a counter-project later on. He considered that the problem of private foreign investment abroad could not be solved by international treaty, as had been shown by the Charter on International Trade. A flow of private capital could never be directed by such means, which would only cause further difficulties. The only way to solve the problem was by bilateral agreement between countries respectively exporting and importing capital, such agreements, of course, to be drawn up in accordance with the principles laid down in the United Nations Charter.

Mr. COLIADO stated that, in the circumstances, he, too, wished to submit a counter-proposal.

Following a suggestion by Mr. MOROZOV, the CHAIRMAN adjourned the meeting until 2.30 p.m. of the same day, so as to allow time for the preparation of the counter-projects.

The meeting rose at 12.30 p.m.