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Chairman : Prince WAN WAITHAYAKON (Thailand).

Economic development of under-developed countries : report of the Economic and Social Council (chapter III) (A/1884¹ and A/1924) (continued)

(a) Financing of economic development of under-developed countries (A/C.2/L.79 and Corr. 1 & 2, A/C.2/L.83/Rev. 1, A/C.2/L.86 and Corr. 1, A/C.2/L.103 and A/C.2/L.104) (continued)

[Item 26]*

1. The CHAIRMAN drew attention to the fact that following informal discussions the delegations of Burma, Chile, Cuba, Egypt and Yugoslavia had submitted a joint draft resolution (A/C.2/L.104) replacing their former proposal. The other draft resolutions remaining for consideration by the Committee were the draft resolution submitted by Ecuador (A/C.2/L.79 and Corr.1 & 2), the revised joint draft resolution submitted by Burma and Cuba (A/C.2/L.83/Rev.1), the joint draft resolution submitted by Brazil and Greece (A/C.2/L.86 and Corr.1) and the Chilean amendment thereto (A/C.2/L.103).

2. Mr. SANTA CRUZ (Chile) introducing the joint draft resolution (A/C.2/L.104) on behalf of Burma, Chile, Cuba, Egypt and Yugoslavia pointed out that it contained nothing new in substance, but that the content of the various draft resolutions amalgamated therein had been replaced by the new draft in order to make it more acceptable. The Brazilian and Greek delegations had not been asked to become co-sponsors of the joint draft resolution, since their objectives, as evident from their

own draft resolution (A/C.2/L.86 and Corr.1), were clearly quite different.

3. The adoption of the joint draft resolution should be facilitated by the fact that the question of an international development authority and of loans to private undertakings dealt with in the original joint draft resolution submitted by Burma and Cuba (A/C.2/L. 83 and Corr.1 and Add.1) was now contained in the separate revised joint draft resolution submitted by these two sponsors (A/C.2/L.83/Rev.1) and was not covered in the joint draft submitted by the five Powers.

4. The CHAIRMAN called on Mr. Black, President of the International Bank for Reconstruction and Development to make a statement.

5. Mr. BLACK (President of the International Bank for Reconstruction and Development) said that, since his report to the Bank's Board of Governors at its sixth annual meeting, the Bank had continued its work for economic development and in the current preparatory stages had concentrated on speeding up the progress of economic expansion by steadily extending the scope of its assistance to member countries in the formulation of development plans and projects.

6. The emphasis placed by the Bank on assistance in the preparation of development programmes and projects was reflected in the tempo of its lending activities. The fiscal year 1950-1951 had seen the highest number of development loans in the Bank's history, 21 as against 8 the previous year. That largest volume of loans had totalled nearly \$300 million and constituted the greatest development of the Bank's activities in helping Member States to increase productivity and raise standards of living. After quoting figures illustrating the growth of the Bank's lending activities in the first five years of its existence, he pointed out that the steady acceleration of the pace of its financing was even more significant.

¹ See *Official Records of the General Assembly, Sixth Session, Supplement No. 3.*

* Indicates the item number on the General Assembly agenda.

Thus, in 1950-1951 the volume of lending for development purposes had been twice that of any previous year and had exceeded the total volume of development lending over all the earlier years of the Bank's operations.

7. The Bank's technical assistance in the preparation and execution of loan programmes achieved three purposes. It enabled countries to accelerate development with their own resources; it often furnished key equipment for, and made possible, the execution of projects, the total value of which might be many times the value of the loans granted; and it assisted countries in guiding their development into the most useful channels.

8. One of the Bank's chief instruments for providing technical assistance was the comprehensive survey mission, which suggested policies and investment programmes most likely to accelerate the recipient country's development. He gave instances of various survey missions sent to certain member countries.

9. During the last fiscal year, the Bank had broadened its base in the private capital markets which provided the bulk of its loan funds, thus increasing its own resources and assuring the Bank's securities of a place in the leading capital markets of the world.

10. During the past three months the Bank had made eight additional loans for development projects amounting to over \$118 million in all and loan discussions with a number of other countries were well advanced. Representatives of the Bank had visited more than twenty member countries in some cases in connexion with existing loans, or, with reference to pending loan applications, in others for purposes of consultation looking to the formulation of loan proposals, or with a view to providing technical assistance of various kinds at the request of governments.

11. Technical assistance activities were growing steadily. The joint Bank/FAO group which had studied agricultural development in Chile was at present drafting its report. Survey missions and special representatives of the Bank had been engaged on special tasks in various other countries. The Bank had been assisted in that work by several of the specialized agencies, particularly FAO and WHO. In addition, the Bank had provided advice and assistance on various specific development problems ranging from the nomination of experts to the review of technical programmes in such fields as telecommunications, to consultation and advice in the organization and functions of investment institutions, and the development of local capital markets.

12. The foregoing review showed the direction in which the Bank had been moving and the increasing measure of success attained, a specially important point being the progress made by the recipient countries themselves—partly with the Bank's assistance—in working up their programmes to the stage where they were ready for financing. It also indicated the basis for the Bank's expectation that, short of any drastic deterioration of the international situation, it would be able to meet all the needs of its member countries which could properly be met on a long-term loan basis.

13. He would like briefly to restate the Bank's views on the various proposals put forward for additional facilities to provide development capital. First, in reply to suggestions as to the need for vastly increased loan capital available to the less-developed countries, he stressed the fact that the Bank's target had been, and continued to be, to increase the rate and volume of

lending as rapidly as possible, subject only to the limitations that loans would not be granted in excess of the amount which the Bank believed the recipient could reasonably afford to borrow and that it must be satisfied that the capital provided would be devoted to productive purposes. In the Bank's experience, the speed at which it could proceed would depend largely upon factors beyond its control, such as the ability and willingness of under-developed countries to push ahead with the preparation of development projects; the ability, at least in the immediate future, of the industrial nations to make equipment and materials available; and, to some extent, the willingness of the more developed countries, other than the United States, to make a greater part of their 18 per cent capital subscription in the Bank available for lending purposes.

14. In the light of the many uncertain factors involved, any estimate of the amount of development lending to be undertaken by the Bank in the next few years would be pure guess work. But it would be wholly unrealistic to believe, under presently foreseeable conditions, that the amount of the Bank's development loans would approach the annual figure of \$1,000 million suggested by the Group of Experts in their report on *Measures for the Economic Development of Under-developed Countries*. Such suggestions, by raising hopes without any reasonable chance of fulfilment and so distracting countries from practical and realistic objectives, could do real harm. The actual execution of projects financed by the Bank, as shown by the slow rate of disbursement of some of its loans, had not always progressed as rapidly as available financial resources permitted, thus illustrating the fact that even when funds were available, the process of development took time and the ability of countries to absorb capital was limited.

15. Next, with regard to the proposal for an international finance corporation, the Bank had, on various occasions, pointed out that its contribution to the expansion of private enterprise in the under-developed countries had been limited by two factors: first, by the requirements that its loans should be guaranteed by the government or central bank of the country concerned, and secondly, by the fact that it had no funds available for equity investment. The management of the Bank accordingly welcomed the suggestion, first made by the United States International Development Advisory Board, that an international finance corporation should be created as an affiliate of the Bank to enable the latter, through the Corporation, to make loans to private enterprise without a governmental guarantee and to make equity investments in participation with private investors. It was therefore gratifying that the Group of Experts had considered that suggestion worthy of study and, in accordance with the request made by the Economic and Social Council at its thirteenth session, the Bank expected to submit a report thereon at the Council's April session.

16. Thirdly, in connexion with the proposal for an international development authority, the management of the Bank, which regarded the development task as urgent, believed that in some countries the rate of development could not be substantially accelerated if the only external capital they received was in the form of loans with a reasonable prospect of repayment. It strongly believed that any additional assistance given to those countries should be in the form of grants rather than of quasi-loans, that the grants should preferably be administered through international channels, and

that, to the fullest extent practicable, the technical facilities of existing international agencies should be utilized for such administration. But, the decision as to what sums were available as grants for development purposes was one which only the more advanced countries could make in the light of their own national policies, resources and the totality of their commitments.

17. In discussing capital needs, it was important not to lose sight of the fact that there were other elements besides capital which were essential to development and which, in some cases, might even be more urgent than capital. Those elements received special mention in chapters III to IX of the report of the Group of Experts. Appropriate action in those fields was not only worthwhile in itself but was indispensable for the productive use of capital both external and domestic.

18. The Bank regarded development as its primary task, to which it would continue to strive with all the resources at its command.

19. Replying to a question from Mr SANTA CRUZ (Chile), Mr. BLACK (President of the International Bank for Reconstruction and Development) stated that the Bank's study of the question of the establishment of an international finance corporation was still incomplete; its findings would be made known in good time before the Council's fourteenth session; he could say, however, that the preliminary findings had been rather favourable.

20. The CHAIRMAN thanked the President of the Bank for his clear and encouraging statement.

21. Mr. ARNALDO (Philippines) said his delegation had taken a prominent part in suggestions for solving the problem of finding ways and means to increase the flow of foreign capital to under-developed countries, both during the twelfth and thirteenth sessions of the Economic and Social Council and in the Economic, Employment and Development Commission. At the May 1951 session of that Commission, the Philippine delegation had supported the recommendations made by the Group of Experts to set up an international development authority and an international finance corporation. Furthermore, at the Economic and Social Council's thirteenth session his delegation had contributed to the adoption of resolution 368 (XIII). His delegation had at that time stated² that economic development of under-developed countries could only be held as secondary to the over-riding claims of defence against aggression and that the Council should examine the problem in a practical manner so that positive action might be taken to stimulate a greater flow of private and public capital into those countries. It had consequently submitted amendments³ to that effect which had received general support in the Council.

22. His delegation's record in the Economic and Social Council indicated what position it would adopt at the present session of the General Assembly. In his view, the original draft resolutions submitted by the delegations of Chile, Burma and Cuba, and Yugoslavia pointed the way to a solution of the problem. He would comment on the revised joint draft resolution at a later stage in the discussion. The draft resolution submitted by the delegation of Ecuador (A/C.2/L.79 and Corr. 1 & 2)

did not call for comment, as it proposed nothing new in respect of external financing.

23. Referring to the joint draft resolution submitted by the Brazilian and Greek delegations (A/C.2/L.86 and Corr.1), he pointed out that paragraphs 4 and 5, the substance of which had been originally proposed for inclusion in the Economic and Social Council's resolution 371 (XIII) by the Philippine and Pakistani delegations, were not relevant to the question of financing of economic development. The remainder of the proposal seemed to him to duplicate measures already under way.

24. The proposals before the Committee indicated both the active interest of the under-developed countries that some concrete action should be taken to supplement the existing international financing structure and the fact that the problem had reached a stage where it could be considered as mature for consideration.

25. He cited statistics from the *Economic Survey of Asia and the Far East, 1950*,⁴ prepared by ECAFE, pointing to the need for capital investments in the solution of the grave task facing the under-developed countries of Asia. Such a solution would seem to call for the same courage and high-mindedness which made the Marshall Plan an act of outstanding co-operation. If the under-developed countries could be assured of external sources of financing in regular and sufficient amounts under a long-range programme, a more auspicious climate would be created for the execution of the economic and social development plans in Asia. As the under-developed countries grew in economic strength, their value as a positive force for peace in the world at the present time would increase accordingly.

26. Mr. ARUTIUNIAN (Union of Soviet Socialist Republics) said he would comment on the essence of the numerous draft resolutions submitted on the interesting question of the financing of economic development. Under the Chilean proposal (A/C.2/L.77) which formed the basis of the joint draft resolution (A/C.2/L.104), the Assembly was to request the Council to prepare a detailed plan for the establishment of a special fund for grants-in-aid and for low-interest, long-term loans to under-developed countries. The Burmese-Cuban joint draft resolution (A/C.2/L.83 Rev.1) contemplated the establishment of an international development authority to assist the under-developed countries in preparing, co-ordinating and giving effect to their economic development programmes. The draft resolutions submitted by other delegations, except for that of Ecuador merely instructed the Council to continue its study of the question of financing and added nothing new to the problem. The Ecuadorean draft resolution (A/C.2/L.79 and Corr.1 and 2) recommended that Member States should facilitate the investment of private capital through the International Bank. The latter was thus quite separate from the other draft resolutions and he reserved the right to speak on it at a later meeting.

27. All the draft resolutions submitted were characterized by an over-estimation of the significance of foreign capital for economic development, and all tended to encourage intervention in domestic affairs through the channels of foreign capital and to perpetuate the economic subordination of the under-developed countries. The Burmese-Cuban draft resolution (A/C.2/L.83 Rev.1),

² See *Official Records of the Economic and Social Council, Thirteenth Session, 503rd meeting.*

³ *Ibid, Annexes, agenda item 4 (a), document E/L.211.*

⁴ United Nations Publications, Sales No. 1951.II.F.4.

for example suggested that the proposed international development authority should prepare, co-ordinate and give effect to development programme and then report on progress, a proposal that would virtually establish an international economic protectorate over under-developed countries.

28. The same ideas were also found in the other draft resolutions. In the joint draft resolution (A/C.2/L.104), for example, the Council was requested to prepare recommendations concerning the principles which countries receiving grants and loans from the special fund should observe. Both that clause and the clause in the original Chilean draft resolution (A/C.2/L.77) with regard to the criteria for defining the countries which should be eligible for grants and loans from the special fund lent themselves to political discrimination in the giving of aid.

29. While he agreed that it was necessary to attract foreign capital, such capital should be used only as a subsidiary source of finance, and its investment must not be subject to political, economic or military privileges. Loans and credit could be a normal form of economic collaboration only when they were based on equality of rights and on respect for the sovereignty of the recipient country. Credit should not be accompanied by any demand for an account of the way in which it was spent or by any request for specific economic information.

30. He contrasted the practice followed by the International Bank with that of his own country in extending loans to foreign countries. The USSR had given China a credit of \$300 million, at an interest rate of 1 per cent *per annum*, to enable it to buy materials for the reconstruction of its national economy and for industrialization purposes. The loan had been granted on a basis of mutual respect and without requesting an account of the way in which it was spent. A credit had been granted to Poland, under similar conditions, for the building of a large metallurgical plant.

31. He said that some representatives, in introducing their draft resolutions, had distorted the position of other delegations, including his own. He had at no time expressed the opinion, ascribed to him by the representatives of Cuba and Chile, that economic development should be financed exclusively from the mobilization of domestic resources. He was perfectly willing to concede that foreign capital should play a subsidiary role in financing, provided that there were satisfactory safeguards concerning the source as well as the use of capital. In the first place, the source of foreign capital should be considered. It might, indeed, be desirable if the Secretariat at some future time produced a factual report on that subject. The published data already available was, however, sufficient for certain conclusions to be reached.

32. Investment of United States capital in foreign countries had produced annual profits in excess of the annual sum invested since the second world war. In 1948, the average annual profit on direct capital investments abroad by the United States had been \$1,400 million, while the total of the direct foreign investments of the United States had not exceeded \$1,000 million. Thus the profit was much greater than the investment and it was obvious that new foreign investments were made from the profits sucked out of the under-developed countries. Moreover, it was not countries such as the

United States which were financing the development of the under-developed countries; development was actually being financed from the resources of the under-developed countries themselves. The belief that the under-developed countries did not have sufficient domestic resources to finance their development was incorrect; the resources existed but were being used by the developed countries for their own purposes.

33. The whole system of economic relations was founded on a system of unequal exchange, detrimental to the under-developed countries. The under-developed countries sold their goods cheaply and bought at high prices. The adverse terms of trade from which the under-developed countries suffered were described in the report of the Group of Experts, which stated that in 1946 the under-developed countries had paid for the goods they imported \$2,500 to \$3,000 million more than they would have paid if the price relationship had been the same as in 1913.

34. Not only had the price relationship deteriorated so far as the under-developed countries were concerned, but export prices from industrialized countries were currently much higher than domestic prices. For rolled steel, for example, in 1947, the domestic price in the United States had been \$3.20 per cwt. while the export price had been \$5.58. He quoted further figures to show the striking and ever-increasing differences between domestic and export prices.

35. Moreover, the United States under the pretext of international control, practised the policy of paying low prices for goods imported from under-developed countries. The representative of Bolivia, for instance, had mentioned that the price of tin, Bolivia's chief export, was fixed unilaterally by the buyer; and the price of tin had not kept pace with the rise in the price of ferrous metal goods sold to Bolivia. If a just solution could not be found to the price problem, Bolivia risked economic catastrophe.

36. He further quoted a statement issued by the Associated Press in Buenos Aires to the effect that President Peron, in answer to a question by a United States congressman, had said that Argentina had no need of United States capital if the United States could pay a fair price for Argentinian exports.

37. From the profits resulting from that unfair price relationship, the United States had received about \$7,500 million in post-war years, some 2,500 million of which came from the Latin American countries.

38. It was clear that all the talk about financing through grants-in-aid and long-term loans was merely altruistic phraseology with no solid foundation. Average profits on United States capital invested abroad were: for Western Europe 14.5 per cent, for Latin America 17.5 per cent, for the colonies of Western European countries 20 per cent, and for other under-developed countries mainly in the Middle East 31.3 per cent. Thus, the less developed the country, the higher was the rate of profit on capital invested in it. In actual fact, the profit motive was paramount and foreign capital investment enabled countries to strengthen their position of domination *vis-à-vis* the under-developed countries.

39. The Cuban representative had stated that times had changed and that the old colonial policies were no longer followed; but the United States was still pro-

pecting its military and political interest in Cuba as Thomas Mann, for instance, had pointed out.

40. It was clear that many representatives neglected or ignored the dangerous repercussions which were likely to ensue if foreign financing was used as the main source for economic development, and it was essential, if countries were to avail themselves of foreign financing, that conditions should be established in advance which would preclude the granting of any military or economic advantages to the investing country.

41. He added that, since various amendments and additions would undoubtedly be proposed to the draft resolutions, he would define his delegation's final position to them at a later stage.

42. U KYIN (Burma) referred to General Assembly resolutions 198 (III), 306 (IV), 307 (IV) and 406 (V) relating to the economic development of under-developed countries. Under resolution 400 (V), the Economic and Social Council had been asked to consider the specific question of adequately financing the economic development of under-developed countries. The Council's decisions were embodied in resolutions 270 (X), 294 (XI), 342 (XII) and 368 (XIII).

43. Despite those resolutions, little progress had been made towards the solution of the problem. The Council had considered the report and recommendations of the Group of Experts at its thirteenth session and had rejected the recommendations for the not very cogent reasons given in paragraphs 472 to 475 of its report. The under-developed countries would prefer to proceed with the implementation of Recommendations 13 and 14 dealing with the amount of lending for development purposes to be undertaken by the International Bank and the establishment by the United Nations of an international development authority to assist them in implementing their programmes of economic development and to distribute to them grants-in-aid for specific purposes.

44. If those recommendations proved to be unacceptable, the second best solution would be to make a complete survey of the situation so that definite proposals for the establishment of a fund could be considered at the next session of the General Assembly. That method would be just one step in advance of the action contemplated in the resolutions adopted by the Council.

45. The joint draft resolution submitted by Burma, Chile, Cuba, Egypt and Yugoslavia (A/C.2/L.104) did not advocate a hurried establishment of the fund. At the same time no representatives of under-developed countries would wish the problem to remain for ever on the agenda as an item of mere academic interest.

46. His delegation was not prepared to support the joint draft resolution tabled by Greece and Brazil (A/C.2/L.86 and Corr.1), because it merely requested the Council to continue its study of the problem.

47. He failed to share the concern expressed by one delegation that the establishment of an international development authority or fund would weaken the International Bank, because the two institutions were intended to cater for two different categories of users. As the Greek representative had stated (161st meeting), the International Bank would regard the long-term loans with low rates of interest, which the proposed fund was intended to issue, as pseudo-loans or grants.

48. The Swedish representative had suggested that the International Bank might be "liberalized" (162nd meeting). If the Bank were more liberal in its scrutiny of applications for loans and issued them liberally at liberally low rates of interest, there would be no need for the current debate since the under-developed countries could simply apply to the International Bank for loans. But the statement by the President of the Bank was not very encouraging in that connexion, and the experts who had studied the best measures for the economic development of under-developed countries did not appear particularly enthusiastic about the "liberalization" of the International Bank. After careful consideration his delegation had decided to oppose the Ecuadorean draft resolution (A/C.2/L.79 and Corr.1 & 2) because the solution suggested did not fully meet the needs of the under-developed countries.

49. One delegation had suggested that the time was not yet opportune for establishing a fund and that the Secretary-General's report should be awaited; but he felt that the question of collecting contributions or of raising loans to constitute the fund did not yet arise and that the result of the survey would not be known for one year during which time the Secretary-General might produce his report.

50. He took issue with the suggestion that not too much attention should be paid to the express terms of United Nations resolutions. A policy to be coherent had to conform to previous decisions.

51. The joint draft resolution sponsored by Burma, Chile, Cuba, Egypt and Yugoslavia was practical, clear and simple. Yet it did not contain the proposal to establish an international development authority to assist the under-developed countries, at their request, in preparing, co-ordinating and giving effect to their economic programmes, and to utilize any new international funds which might be established for issuing loans without governments guarantee to private undertakings and to the national and local credit institutions. Accordingly, a separate development authority should be established to prepare, co-ordinate and implement development programmes contemplated in paragraph 4 (a) of the Burmese-Cuban joint draft resolution (A/C.2/L.83/Rev.1); there would thus be no possibility of interference in the administration of the country receiving the loans. He commended the Burmese-Cuban joint draft resolution to the Committee. It contained no revolutionary element and merely incorporated one part of the recommendations of the Group of Experts.

52. Mr. VARGAS GOMEZ (Cuba) explained with reference to the statement by the USSR representative, that; in a previous intervention (161st meeting), he had remarked that private investment had presented certain disadvantages in some areas, but he had added that, in other cases, it had proved helpful and had not involved any interference in the domestic affairs of the recipient countries. He stated that the USSR representative's references to Cuba were totally unfounded and entirely irrelevant to the discussion.

53. Mr. WOULBROUN (Belgium) said, with reference to the Burmese representative's statement, that his delegation had never suggested that the Committee should not adhere strictly to United Nations resolutions. But the report of the Group of Experts on methods of financing economic development was not a collection of United Nations resolutions but the opinion of inde-

pendent specialists. There was therefore no inconsistency between the position of the Belgian delegation in the Committee and in the Council.

54. Mr. SANTA CRUZ (Chile) recalled that the USSR delegation, at previous sessions of the General Assembly and the Economic and Social Council, had declared that it could not support any proposal which included a request by under-developed countries for financial help. Yet the USSR representative had just stated that his Government accepted the principle of external aid to under-developed countries as a secondary method. Apparently then Mr. Arutiunian agreed with the substance of paragraph 3 (a) of the joint draft resolution submitted by Burma, Chile, Cuba, Egypt and Yugoslavia (A/C.2/L.104). The Chilean delegation agreed that the economic development of under-developed countries depended first and foremost on the efforts of the people of those countries and on the better utilization of their natural resources. He mentioned the examples of Venezuela and Chile as countries which had developed domestic resources without any loss of national sovereignty.

55. The USSR representative had remarked that paragraph 12 of the joint draft resolution (A/C.2/L.104) would tend to transform the recipient countries into

international protectorates, but he (Mr. Santa Cruz) failed to see how that representative arrived at that conclusion since no specific methods were advocated in that paragraph; the text scrupulously conformed to the relevant resolutions of the General Assembly and, if anything, tended rather to bolster national sovereignty. It was for the Council to suggest specific methods to the General Assembly.

56. The USSR representative had also referred to the difference in price between raw materials and manufactured goods as a factor contributing to the poverty of under-developed countries. That fact was well known and had been amply discussed in Santiago. The only way of removing the discrepancy was to promote industrialization and diversification of the economies of under-developed countries. He could also assure the USSR representative that the sponsors of the joint draft resolution had considered the political consequences of their proposals, for they proposed that the under-developed countries were to state themselves the type of assistance which they needed. The under-developed countries could remain economically free only by accepting foreign public economic assistance through an international fund.

The meeting rose at 6.15 p.m.