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**Chairman: Mr. Leo MATES (Yugoslavia).**

**Economic development of under-developed countries (A/2430, A/2447 and Corr.1) (*continued*):**

- (a) **Question of establishing a special fund for grants-in-aid and for low-interest long-term loans: report of the Economic and Social Council (A/C.2/L.204, A/C.2/L.205);**
- (b) **Status of the proposal for the establishment of an international finance corporation: report of the Economic and Social Council**

[Item 26]\*

1. Mr. GUTIERREZ GUTIERREZ (Costa Rica) said that although the Preamble of the Charter expressed the resolve of the United Nations to employ international machinery for the promotion of the economic and social advancement of all peoples the United Nations had not so far substantially accelerated the economic development of under-developed countries.

2. According to the report of the Economic and Social Council (A/2430), Latin America had experienced an extraordinary rate of economic growth in comparison with other areas; in 1952 there had been an increase of 4.7 per cent in its gross product and the rate of investment had been raised to 16.5 per cent. Nevertheless, the Economic Commission for Latin America had pointed out that that growth could not be considered satisfactory having regard to present standards of life in Latin America. At the present rate of growth, the Latin American countries would need 42 years to attain an average *per capita* income equal to one-third of the present *per capita* income in the United States. The importance of effective international assistance was shown by the fact that the time required would be reduced to 25 years if the rate of investment could be raised to 20 per cent.

3. In Costa Rica a new President would take office on 8 November and the country would accelerate the development programme it had initiated in 1948. The process would be facilitated by the experience gained

\* Indicates the item number on the agenda of the General Assembly.

in the field of industrial and agricultural development and by the country's sound financial position. In working to raise its standards of living, Costa Rica proceeded on the principle that economic development must be based primarily on national effort. It had benefited from technical assistance programmes but had not so far required international financial assistance. Future development plans would be financed by the combination of public agencies and private enterprises which had been found best suited to the situation in Costa Rica.

4. Nevertheless since Costa Rica was a small raw material exporting country, the acceleration of its development plans was dependent on a number of factors in the international economic situation. In the first place, Costa Rica would be unable to maintain a satisfactory rate of investment if it did not obtain favourable prices for the raw materials it exported. He had therefore been particularly interested in the United States representative's statement (259th meeting) that concerted international action might be taken to eliminate violent fluctuations in world prices. Any such measure would be invaluable for the economic and financial stability of under-developed countries.

5. With regard to foreign investment, the argument that the under-developed countries could accelerate their economic development merely by creating a favourable climate for foreign investment was, as the President elect of Costa Rica had stated in a recent article in *The New Leader*, based on two false premises: that there was an enormous reserve of foreign capital available for investment in countries offering it favourable conditions and that such investments would be of advantage to the under-developed countries.

6. The first premise ignored the fact that industry in the advanced countries required all the capital available in order to make use of new technological discoveries. In order to attract a share of that capital the less advanced countries would have to offer a return higher than the profit of 15 to 20 per cent obtainable from investments in the United States. The cost of the investment would therefore be too high. The second premise was equally false because, in fact, the greater part of the wealth produced by foreign investment went to the investing country, a situation which tended to create international friction and resentment. Moreover, if the capital necessary for the economic development of the under-developed countries was obtained solely from private sources it was likely that remittances of profits and interest to the investing countries would absorb so much of the external purchasing power of the under-developed countries that their ability to import the capital goods essential for their economic growth would be seriously reduced.

7. Costa Rica maintained a climate of order and freedom which allowed any person, whether a national or not, to earn his living, and any undertaking to carry on its business provided it obeyed the law. Costa Rica,

however, did not regard foreign investments as a universal panacea and hoped to remove the existing discrimination in favour of some foreign enterprises which had operated in the country for some years under contracts granting them more favourable treatment than that accorded to Costa Rican nationals.

8. His delegation believed that international financial assistance had much greater advantages than large scale foreign investments, even if the latter were feasible. International financing could offer capital at much lower rates of interest while the ownership and management of enterprises were left in the hands of residents of the country concerned. For that reason the Costa Rican delegation had already expressed its support of the proposals to establish a special fund and an international finance corporation.

9. The number of times those proposals had been discussed during recent years showed that the two bodies in question would fill a real gap in existing development programmes. It was universally recognized that they were necessary although there was some difference of opinion as to whether the time was ripe for their establishment.

10. The efforts of the under-developed countries to secure the establishment of the Special Fund had received valuable backing in the excellent report of the Committee of Experts (E/2381). His delegation supported the fundamental principles expressed in that report, particularly the reasons given for considering that the establishment of a new organization would be more effective than the expansion of existing agencies.

11. His delegation supported the Committee's recommendation that the Special Fund should be semi-autonomous, in order to permit the participation of States which were not members of the United Nations. However, more detailed study was necessary of the fund's relationship with bodies existing within the family of the United Nations, in particular with the Technical Assistance Administration. In that connexion the observations of the Committee of Experts (E/2381, paragraph 161) were particularly apposite. The views regarding the possibility of setting up an international development authority expressed by Mr. Santa Cruz in his separate concurring statement (E/2381, page 61) should also be taken into account. His delegation considered it essential that TAA and the fund should be so closely integrated as to allow the former to evaluate projects and organize basic studies. The proposal in the report that contributions to the Special Fund should be voluntary and commensurate with each country's capacity to pay required elucidation. It was not clear what the position would be if the executive board of the fund considered that a country's voluntary contribution was not in fact sufficiently high.

12. With regard to the possibility of establishing the fund and the international finance corporation, it was regrettable that the representative of the United States, which had so generously supported United Nations economic programmes, had said that his country was not in a position to contribute at the present time. That did not mean, however, that the Committee should confine itself to approving the resolution making the establishment of the fund conditional on progress in internationally supervised, world-wide disarmament. Costa Rica, as a peace-loving country whose constitution forbade the maintenance of a standing army, welcomed the declaration in the United States draft resolution (A/C.2/L.204); an agreement between the

great Powers to reduce armaments and devote the savings achieved to an international fund for economic development would indeed be an historical event of the greatest importance. However, the experience of the League of Nations showed the difficulty of achieving disarmament even in the absence of international tension. At the present time, when the western nations were arming to defend themselves against a possible aggressor, the prospect of disarmament was even less likely.

13. To make the Special Fund dependent on a disarmament programme would be to postpone it indefinitely. Although it was regrettable that the more advanced countries could not contribute to the fund at the present stage, that was no reason for suspending constructive work on it. Preparations for a conference on the subject could be started so that, as the Yugoslav representative had suggested, the General Assembly could consider, at its ninth session, the expediency of convening such a conference.

14. The observations contained in the Bank's report on the question of creating an international finance corporation (E/2441) reflected the conflicting opinions within the Second Committee where the countries requiring the assistance of such a corporation supported it and the countries which could render it effective were reluctant to take part in it. The divergency of opinions was, however, no reason for shelving the proposal. The passage of time would strengthen rather than weaken the proposal, particularly as an institution designed to assist private enterprises was more likely to capture the imagination of the governments of the most important western nations than a special fund.

15. He felt that the logical next step would be to prepare a draft statute for the international finance corporation; in that connexion he asked the representative of the International Bank whether the Bank would be able to prepare a draft statute for the proposed corporation for consideration by the Assembly at its ninth session.

16. The aim of the Committee in discussing the economic development of the under-developed countries should be to achieve progress in diagnosing existing evils and devising means of remedying them. In order to show the world that real progress was being made, his delegation hoped that the resolutions adopted would advance the cause of international co-operation as a means of improving standards of life throughout the world.

17. Mr. UMARI (Iraq) stated that, by concentrating their efforts on the under-developed countries, the more advanced countries would not only make laudable and productive use of the world's industrial capacity but would, in time, expand it and open the way to prosperity.

18. It was wrong to attribute many of the political and other developments in the under-developed countries to the influence of alien ideologies. While such influences might exist, it should be realized that the aspirations of the under-developed countries were spontaneous and the inevitable accompaniment of their awakened consciousness. It would be a serious mistake to misinterpret the nature of the problems resulting from that awakened consciousness and to relate them to current political differences.

19. The under-developed countries realized that they could develop much more quickly with the assistance of the more advanced countries. Sound economic self-

interest should prompt the latter to meet the challenge. The extensive and systematic development of under-developed areas, far from having to wait upon universal disarmament, would itself be largely instrumental in bringing about a relaxation of tension. The economic and social improvement of living conditions in the under-developed countries would lead the latter to devote their latent energy to patient and constructive effort. While the accelerated production of armaments made for suspicion and insecurity and threatened annihilation, economic development held out the promise of universal prosperity. Whatever funds were subscribed or sacrifices made in the interest of developing the under-developed areas were net gains for all mankind. While disarmament could accelerate world development, the latter should not be postponed until disarmament become a reality. Active efforts should be made to develop the under-developed countries as if the relaxation of world tension was imminent.

20. Various explanations had been advanced for the slowness of the movement of capital into the under-developed countries. Some maintained that private capital shied away from those countries because of insecurity. He believed that the relations between investors and recipient countries could be placed on a more secure basis by agreements promoted by international action. Certain investors had established themselves in under-developed countries in the past on grossly unfair terms and had failed to move with the times; they had sought to perpetuate their advantageous position. Such instances, however, should not be quoted as examples of bad faith *per se* but rather as a warning to potential foreign investors. There were many more foreign companies who operated in the under-developed countries under secure conditions because they had refrained from retaining unfair advantage indefinitely. New investors ought not to be misguided by the few instances where foreign companies had been roughly handled; they should rather look into the conditions under which those companies had been operating. He thought that the days when foreign capital sought to secure unfair conditions and exorbitant profit at the expense of the country in which it invested had passed. Many under-developed countries had in fact created an atmosphere of confidence and security for foreign capital.

21. At the 1947 session of the General Assembly, he had urged (39th meeting) that the relations between capital exporters and recipients should be regularized and established on a basis ensuring fairness to both sides. Foreign capital should not try to interfere in the domestic affairs of the recipient countries nor to secure a special position for itself; in return the recipient countries should create an atmosphere of security and confidence to attract and retain foreign capital. The idea of SUNFED was based on the realization that the stage had been reached where such an agency could fill a great gap. Despite all their potentialities and excellent work, the existing international organizations engaged on developing the under-developed countries had to be supplemented by an agency equipped to finance those countries from international sources.

22. There were two major aspects of the development of under-developed countries by international action: the activities undertaken under the Expanded Programme of Technical Assistance and other parallel schemes; and the financing of development in support of technical assistance and similar activities.

23. The report of the Committee of Experts outlined a scheme to set up a modest development fund. Although there might not be general agreement on certain details or on whether the initial minimum capital requirement of \$250 million was adequate, the report offered a positive formula capable of adjustment and worthy of serious consideration. The United Nations should continue its efforts to establish SUNFED. As the purposes and the scope of SUNFED were not universally understood, it should be discussed with the appropriate departments of Member States. Their reactions to the report should then be analysed by the Secretary-General so that the proposed fund could be based on their collective opinions.

24. As indicated in resolution 622 A (VII), the General Assembly recognized that the international financing of economic and social development would contribute to relaxing world tension.

25. Whereas SUNFED would deal with international public funds, the proposed international finance corporation would administer private and equity funds. It could become the clearing-house for investors and recipients and would be of valuable assistance to countries seeking outside opportunities for investment.

26. He agreed that, as far as possible, domestic resources in the under-developed countries should be directed towards their economic development, but many of those countries could not do that as they lacked the necessary machinery, tradition or state of mind. Money and capital markets were either non-existent or strictly limited. Iraq, for its part, was steadily promoting its various development projects and was allocating 70 per cent of the royalties from its oil production to the development of dams, reservoirs, irrigation, flood control and similar projects.

27. The International Bank had analysed some of those factors in its report on the proposal for an international finance corporation (E/2441). Opinions on that score in the business and financial communities which the Bank had consulted were mostly favourable and he therefore felt that the time had come to request the General Assembly to urge the Bank to pursue the matter further.

28. Mr. MORALES (Panama) emphasised the importance of the United Nations obligation to promote the economic development of the under-developed countries. Peace could not be maintained by treaties and international conferences alone; it was essential to promote full employment, higher standards of living, and conditions of economic and social progress and development to create the conditions of stability and well-being necessary for peaceful and friendly relations among nations. The expansion of production, unemployment, trade restrictions, investments in under-developed countries and other economic problems were of vital importance to the maintenance of peace. The United Nations was fully aware of the relation between political and economic problems and in Korea it was working to provide means for economic rehabilitation.

29. The development of the under-developed countries would cure the world's economic difficulties. The poorest countries were those richest in natural resources and owing to the fact of economic inter-dependence, any measures to develop their economies would strengthen the world economy. The poorer countries could solve their problems if they had the means to exploit their resources and provide their workers with regular employment, and would thus become better

markets for the manufactured goods supplied by the developed countries.

30. World economic stability could not, however, be achieved unless international assistance was provided on a broader basis than had hitherto been the case. Excellent work had been done under the technical assistance programmes, but much remained to be done. Countries that were at present modernizing their agriculture would later wish to embark on a programme of industrialization. Panama through its Institute of Economic Development was attempting to develop its natural resources to produce goods it had formerly imported, thus promoting full employment and higher standards of living. It had recently received two loans from the International Bank, one for the purchase of agricultural machinery, and the other for building grain storage facilities. Such projects deserved the assistance of international financial organizations, but did not solve his country's economic problems which were not confined to agriculture.

31. With regard to the Special Fund, he said that the desirability of its establishment had been fully recognized by both recipient and donor countries. Moreover, the concrete and detailed recommendations made by the experts appointed by the Secretary-General had brought out the advantages of the fund and the desirability of its establishment. The establishment of SUNFED would be fully justified, because no existing international financial institution could supply non-commercial capital in the form of long-term low-interest grants-in-aid or loans to under-developed countries.

32. There was a major obstacle to the fund's establishment: the reluctance of the main prospective contributing countries which had made the establishment of the fund dependent on savings through disarmament. While it was to be hoped that disarmament would

make new capital available, the establishment of the fund must not be made conditional on disarmament. In fact, the work which could be carried out by means of the Special Fund might be an important and almost decisive factor in creating a favourable atmosphere for world-wide disarmament.

33. The establishment of an international finance corporation had also met with some opposition. Its opponents argued that it would compete with direct private capital investments, but it might reasonably be hoped that, by leading to the elimination of government restrictions, it might tend rather to encourage private investment abroad. The corporation would have the advantage of the experience gained by the International Bank and of the research carried out by its experts. Its work would be complementary to that of the Bank's, since private firms whose activities furthered the economic development of under-developed countries would be able to obtain the capital required for their activities. The initial capital of \$400 million would be a very modest sum, and it was to be hoped that the corporation would be granted preferential treatment in placing its investment shares on the capital markets of the world. The confidence of investors would be increased if governments were to guarantee the corporation's loans in the same way as they guaranteed those of the Bank. It had been emphasized that the proposed corporation must not attempt to assume control of any undertakings it helped to finance, and that no undertaking should be granted privileges through the corporation's influence.

34. His delegation attached the greatest importance to the financing of economic development in under-developed countries and thought it most desirable that SUNFED and the international finance corporation projects should both receive most careful attention.

The meeting rose at 12.15 p.m.