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Chairman: Sir Douglas COPLAND (Australia).

AGENDA ITEM 25

Economic development of under-developed countries (A/2686, A/2702) (continued):

- (a) **Question of the establishment of a Special United Nations Fund for Economic Development: summary by the Secretary-General of comments of Governments on the report of the Committee of Nine, report of Mr. Raymond Scheyven and report of the Economic and Social Council (A/2646 and Add.1 to 4, A/2727 and Corr.1, A/2728 and Corr.1);**
- (b) **Question of the establishment of an international finance corporation: report of the Economic and Social Council;**
- (c) **International flow of private capital for the economic development of under-developed countries;**
- (d) **Land reform**

GENERAL DEBATE (continued)

1. Mr. MADRIGAL (Costa Rica) said that the economic advancement of the under-developed countries must be considered not as a problem peculiar to those countries but as a world problem. As long as the major Powers spent vast sums on armaments rather than on constructive undertakings of universal advantage, the under-developed countries would languish in hunger and poverty and tension, and war would continue.

2. In his annual report (A/2663) the Secretary-General had stressed that failure to use the United Nations machinery in matters in which governments had assigned specific or primary responsibility to the Organization might tend to weaken the position of the Organization and reduce its influence and effectiveness.

That statement, which had been made with reference to international security, was equally applicable to world economic development. While the international finance corporation remained a mere project, a group of United States and Latin American businessmen intended to meet at New Orleans in February 1955 to promote the international flow of capital and, in short, to implement the principles on which the international finance corporation was to be based.

3. Costa Rica supported the establishment of the Special United Nations Fund for Economic Development. In replying to the question as to the material support which they would be prepared to extend to SUNFED, the industrial countries had based their negative attitude on the existence of international tension. In that connexion he agreed with Mr. Scheyven that, if public opinion in the major industrial countries were properly informed about the situation in the backward areas and the purposes of their economic and social betterment, it would certainly favour vigorous international action.

4. The recipient countries were in duty bound to apply all their domestic and foreign resources to ensure that the best possible use was made of the assistance extended to them and to co-ordinate their activities, through the new agency, with those of other organizations. Costa Rica was using its own resources to the utmost to further its economic development and, in co-operation with the other Central American States and with the invaluable aid of the Economic Commission for Latin America, was undertaking the economic integration of the isthmus, thus providing an interesting example of inter-regional understanding and unity. Industrialization plans had already been drafted with a view to achieving a higher level of production and a more extensive market than the several participating countries could achieve individually. A technological institute was to be established for the scientific improvement and the more extensive utilization of natural resources; the various colleges and institutes were training personnel, and treaties of friendship and trade had been signed by the countries concerned. Nevertheless much more remained to be done in those countries, which were characterized by their dependence on foreign trade, their low level of national income, the predominance of primary economic activities, low productivity, under-employment and restricted consumer and capital markets.

5. By stimulating the international flow of capital, the international finance corporation could play an important part in the development of Central and Latin America. If the economically advanced countries wished to sell their products, the purchasing power of the under-developed countries would have to be increased. The higher the economic level of the under-developed countries, the greater their demand for manufactured goods would be. Workers in the industrialized

countries would not be thrown out of work and international trade would not be paralysed. The Executive Secretary of the Economic Commission for Latin America had said,¹ with reference to the expressed fear that the rational industrialization of the Latin American countries might paralyse international trade, that their industrial development had in fact merely resulted in a structural change in the overall pattern of foreign trade. No country could accumulate gold and foreign currency indefinitely; countries imported what they could buy with their export earnings and with income from foreign capital.

6. Moreover, as agricultural techniques were improved, with a consequent saving in manpower, industries were needed to absorb the surplus labour and provide a broader market for domestic agricultural produce and foreign manufactured goods. The economic progress of the under-developed countries did not necessarily entail the economic ruin of the countries exporting manufactured goods. The establishment of SUNFED to provide an economic infrastructure in the under-developed countries, and the establishment of the international finance corporation to stimulate the flow of capital, were highly desirable.

7. Industrial development was also necessary as a means of stabilizing the economies of the under-developed countries, which could not continue to make their progress dependent on the vicissitudes of the export market and the continually fluctuating prices of primary commodities. In the last eight months of 1953, for example, the price of tin had dropped by 33 per cent on the New York market and Bolivia had had to bear the consequences. Costa Rica had been similarly affected by fluctuations in coffee prices which had hampered its economic planning. The stabilization of prices and the pooling of surpluses, both essential to the economic development of the under-developed countries, were two of the main functions to be fulfilled by the proposed world food reserve.²

8. The international flow of private capital was also highly desirable, but under conditions which would ensure reasonable profit for the investor and progress and well-being for the country of investment.

9. There were a number of basic undertakings which did not yield high profits but which were essentially public services and which could not be financed by private capital; they had to be financed by the state through autonomous agencies. Apart from such public services there was a vast field of activity for private capital. Costa Rica provided ample safeguards for private investments but in return required safeguards to ensure that they would contribute to the progress and prosperity of the country. Costa Rica applied those principles to foreign investment because it was essential that a substantial amount of the dividends and interest should remain within its territory in contrast to the existing situation in Latin America, from which, in the period 1945-1952, an amount four times the total of the foreign capital invested had been sent abroad.

10. The time had come to make further, co-ordinated efforts to assist the advancement of the under-developed countries. The initial outlay would soon become a real

saving and a solid foundation for the future would be laid.

11. Mr. BUNGE (Argentina) pointed out that there was still no basic international policy to guide and facilitate the national efforts of the under-developed countries. There were even widely divergent opinions about the methods which should be employed. If those obstacles were overcome, progress would rapidly be achieved. In that connexion, he pointed out that the burdens of post-war reconstruction had been greatly lightened by an energetic international plan which had imposed certain restrictions and had provided aid in the form of gifts and loans. The under-developed countries had benefited indirectly, as members of the international community, from that plan and also from the resultant stimulus to their trade caused by the growing demands of the industrial economies. The virtual closing of the dollar gap, to which all countries had contributed directly or indirectly, had meant only the restoration of the productive capacity of the European industrial region, while the more backward countries were unable to satisfy their most elementary food, health and housing requirements. The "hunger gap" was much more ominous than the dollar gap. He hoped that the misery of two-thirds of mankind would prompt the countries of the world to embark on as energetic and ambitious a programme as the European reconstruction programme.

12. Reconstruction efforts had, unfortunately, been based on the assumption that it was enough to re-establish the pre-war world economic pattern. That assumption was unsound and not in accordance with the facts. In the first place, the under-developed countries could not continue to be mere sources of raw materials for the industrial countries in view of the cyclical trend of the terms of trade. It was also impossible to return to the old system of automatic economic adjustment when changes in the flow of goods or capital meant unemployment or the lowering of wages and living standards.

13. It was essential to strengthen the world economy at its weak points by comprehensive programmes. The basic principle underlying international action should be the promotion of economic development at an annual rate exceeding, as far as possible, the rate of population growth. The success of such a scheme would require continued effort on the part of the peoples of the under-developed countries themselves. But an ambitious international policy would also stimulate national action and eliminate the traditional economic spiral.

14. A country's rate of development depended on its rate of investment. In the under-developed areas the marginal propensity to consume was much higher than in the more advanced countries. The income of the under-developed countries was also extremely vulnerable to fluctuations in the volume and prices of exports.

15. Each country, or group of countries, had to realize the efforts which economic development would require and then plan the amount of investment which it considered necessary to achieve the desired rate of development. As the ideal rate of investment was higher than the under-developed countries could normally afford, the first essential was to make such investment possible and then to maintain it on the desired scale. For that purpose it was important to reduce to a minimum the fluctuations in income from exports. Once such stabilization had been achieved, which would render any other kind of action unnecessary in many cases, any

¹ See *Official Records of the Economic and Social Council, Sixteenth Session, Supplement No. 3, Appendix B.*

² Item 66 of the agenda of the General Assembly.

deficiency in the rate of investment would have to be made up by foreign capital. If domestic savings were insufficient to finance minimum investment requirements, international programmes would have to channel external savings to the points where they were needed to further economic development. There was also an urgent need for scientific knowledge, which was relatively scarce in the less developed countries, and which should be provided through international agencies.

16. As a corollary to the international economic development plan which he had outlined, he drew attention to the usefulness of regional co-operation based on complementary production, increased trade and progressive industrialization.

17. Generally speaking, economic development was a prerequisite for improved living standards. That fact acquired vital significance in the under-developed countries where political sovereignty and social justice could be strengthened by the increase in national income which economic development would afford. If progress was to be made, the active collaboration of all the major forces in a country's economic life, in particular government, labour and management was essential. International co-operation could also make a useful contribution. In that respect the exploratory work of the United Nations and particularly of the Economic Commission for Latin America had been of great importance.

18. However, the actual progress made in international co-operation had been slight when compared with the effort required. It was essential that the industrial countries should understand that the task of developing the under-developed countries should be tackled with as much energy as had been devoted to post-war reconstruction.

19. The Argentine delegation had been fully aware of such fundamental needs when it had submitted its proposals to the 214th meeting of the Committee at the seventh session of the General Assembly and had secured the adoption of resolution 623 (VII). As a result of that resolution a series of studies had been made which underlined the importance of achieving stability in the real incomes which the under-developed countries derived from their exports.

20. The report entitled *Commodity Trade and Economic Development* (E/2519) was of particular significance in spite of a lack of decision in certain places and a misunderstanding of the terms "fair, just and equitable prices" used in the resolution. The experts' view that a price could be called reasonable as long as it did not perform extreme upward and downward gyrations which were caused by abnormal and transient conditions or which served no useful economic purpose had led to mistaken conclusions in paragraphs 78 and 79 of the report and to misunderstandings in subsequent debates. In opposing the experts' unwillingness to interfere with cyclical trends, Argentina was seeking not preferential treatment for any one group of nations, but fair and just prices for all.

21. The reluctance to interfere with long-term economic trends by means of rigid mechanisms was unjustified. Indeed, the distinction drawn by the expert committee between short-term and long-term fluctuations was arbitrary since general economic trends were usually determined by a succession of short-term economic cycles.

22. In paragraph 80 the experts' report refuted the absurd allegation that the under-developed countries were seeking unmerited privileges.

23. Apart from the above criticisms, the report was excellent and his delegation was prepared to accept the term "reasonably stable prices" as being synonymous with "just and reasonable prices". The need for price stabilization was not a new one; it had already been recognized at the World Economic Conference held in London in 1933. The report had reached positive conclusions in stating that real income derived from the export of primary products should be stabilized, that single-commodity agreements were inadequate, that the relationship between stabilization measures and financial machinery should be studied on an international scale, that buffer stocks were preferable to multilateral agreements as a stabilizing factor, and that stabilization policies should be efficiently co-ordinated and integrated.

24. The experts' report reviewed in detail the various methods of price stabilization proposed and, recognizing their complexity and the need for fuller studies, recommended the establishment of a new commission of the Economic and Social Council to study the problem and report back to it. On the lines of that suggestion, the Argentine and other interested delegations had further discussed the matter at the seventeenth and eighteenth sessions of the Council and it had finally been decided to establish a commission similar to the one proposed by the group of experts. The Commission on International Commodity Trade was to convene in January 1955 and his delegation hoped that, in view of the magnitude of the problem, it would, from the outset, have the support of all Members of the United Nations, especially of those which played the greatest part in international trade and therefore exercised the greatest influence on world markets.

25. The Government of Argentina, in view of the serious problems now affecting countries producing primary products, had formulated a series of measures for the protection of their markets together with a scheme for emergency action to deal with a large surplus. The opposition of certain countries to interference with so-called natural mechanisms had particularly been taken into account, and recommendations had therefore been confined to preventive action designed to avoid a rapid deterioration of the situation. Consultations between the governments of the exporting and importing countries were also necessary in order to avoid any excessive competition which might dislocate production. The method was quite simple: in cases where burdensome surpluses had caused world prices to fall steeply, further deterioration would be prevented by consolidation of the reduced prices as a minimum level, by framing a uniform and integrated reserve stock policy and by laying down rules governing gifts and similar operations.

26. The Argentine delegation had hoped that international action would be taken to deal with the grave problems caused by the accumulation of a farm surplus in the United States and other producing countries and the consequent decline in farm prices. It had also hoped that similar international action could be taken to control markets in time of shortages. Although some progress had been made the general results had not been encouraging.

27. In spite of such lack of real international co-operation, his delegation was confident that the more

ambitious scope of the Commission on International Commodity Trade would at least facilitate the adoption of a minimum programme for the protection of primary commodity markets in accordance with suggestions by Governments. The problem of surplus was not confined to agricultural produce; there was also a large surplus of metals in the United States.

28. The negative attitude towards such problems could be mainly attributed to the negative character of the Randall report.³ The Randall Commission had concerned itself solely with the problem of the dollar gap and had completely ignored the problem of the economic development of the under-developed countries. Its recommendations for reducing price instability had been confined to such matters as the maintenance of market prices, the diversification of the economy of countries depending on a few products, increased private foreign investments for that purpose and a reduction of economic fluctuations in the United States, which influenced world prices. It was absurd to recognize the existence of a serious problem and then to mention superficially that the remedies were worse than the disease. His delegation did not share such fatalistic opinions and felt that it was impossible to view the deteriorating situation impassively. The Randall report was completely inadequate in that respect and its omissions were the more serious because of its influence on United States foreign policy. However, both the Randall report and President Eisenhower's message to Congress in March 1954 had recommended that the United States continue to co-operate with other countries in order to gain added information about the supply and demand of basic products and to explore ways and means of avoiding instability.

29. The existence of a farm surplus in the United States was a serious danger to countries exporting agricultural produce and had an adverse effect on demand. The United States representative had said during the general debate (291st meeting) that his country could contribute to the economic development of the under-developed countries by selling them such surplus produce in exchange for local currency and that the United States Congress had voted large sums of money to cover the losses resulting from such transactions. However, such sales were liable to have adverse effects on the commercial markets in primary products. The unusual expansion of United States agricultural production had been largely due to the effect of its policy of providing gifts and loans for post-war reconstruction. Such a policy was beneficial in times of shortage like the immediate post-war period, but the situation was now completely different. The policy of making surplus produce available to assist development was sound, provided that steps were taken to maintain minimum market prices. His delegation shared the fears expressed by the Australian representative at the last meeting of the Board of Governors of the International Monetary Fund regarding the United States policy of selling its surplus abroad at bargain prices. Such a policy could not contribute effectively to economic development if proper precautions were not taken to safeguard agricultural producers.

30. It was of fundamental importance for economic development that international commercial policy

should fully recognize the conditions necessary for economic growth. The realization that the volume of international trade was determined by the demand of the industrial centres should lessen the fear of the restrictions that a country in the process of development was bound to impose. Moreover, the formation of economic regions with developing internal specialization and an increasing flow of external trade would allow the problem to be effectively tackled at the international level. It was therefore essential that exceptions be made to the most-favoured-nation clause in the case of economic unions and other systems designed to promote inter-regional trade and, at the same time, that all claims to strict reciprocity in tariff concessions be abandoned.

31. Measures to stabilize prices, markets and international trade were, in themselves, inadequate to promote a vigorous programme of international development. Even if those measures were applied, many countries would still be unable to attain the necessary rates of capital investment. In such cases, the gap would have to be filled with the help of foreign capital. Private foreign capital could be an important source provided that it was directed to productive enterprises which could promote the integrated economic development of the countries concerned. Such investments would help to increase national income, which would, in turn, lead to higher rates of capital investment in the future.

32. It was not to be forgotten that private enterprise was the mainspring of economic activity in many under-developed countries. It was essential that companies organized on such a basis should have greater access to international capital. Their present difficulties in that respect and their lack of modern machinery placed them at a disadvantage as compared with similar enterprises in the developed countries. Thus, in any international financing programme to assist private enterprise, priority should be given to companies in the recipient countries with view to stimulating the whole economic system based on private enterprise. Argentina's support for the establishment of an international finance corporation was to be viewed in that light.

33. Public financing was, however, also needed to supplement private investment in economic development. In that respect the proposed Special United Nations Fund for Economic Development would perform a most useful function. He was therefore glad to note that there was practically unanimous agreement that the proposed fund would be an important and effective means of solving some of the basic problems of financing economic development. The main point at issue appeared to be the question of when the fund was to be established. Until a short time ago there had been a sharp division of opinion on that question; on the one hand the countries which, it was hoped, would be the major contributors to SUNFED believed that its immediate establishment was impractical, mainly because of the need to expend vast sums on armaments, and on the other hand the remaining countries believed that SUNFED should be set up forthwith. Recently, however, there had been some encouraging developments. Certain industrial countries had joined those who were convinced that SUNFED should be established immediately, and had announced their readiness to make contributions. In addition, the brilliant objective report by Mr. Scheyven, together with his statements before the Economic and Social Council (810th meeting) and the Committee (295th meeting), had made a decisive

³ *United States Commission on Foreign Economic Policy, Report to the President and the Congress, Washington, D.C., 1954.*

contribution to the discussion of the problem. The Argentine delegation trusted that further progress towards the establishment of the fund would be made at the present session.

34. His delegation attached great importance to the international technical assistance programmes. The international administration of those programmes should be rationalized and adjusted to the economic development needs of the under-developed countries.

35. The ministers for economic affairs of the American States were meeting in Rio de Janeiro in November to agree on regional economic co-operation which would promote economic progress in Latin America. The achievements of the Colombo Plan participants showed that great economic progress could be made by means of such regional co-operation.

36. The economy of Europe had been restored to prosperity and the problem of the dollar gap had been practically solved by means of international co-operation; he trusted that the legitimate claims of the under-developed countries would be admitted and the more serious problem of the hunger gap similarly solved.

37. Mr. DAYVIERE (Uruguay) said that the United Nations prestige in Latin America would depend on the progress it made with the problem of the economic development of under-developed countries. The problem was one of deciding in what manner and to what extent the economically more advanced countries should help to finance the economies of the under-developed countries.

38. Uruguay was certainly an under-developed country, although it was economically more advanced than others. It needed to obtain from abroad resources which it did not itself possess so as to be able to make sufficient economic progress in order to ensure a solid and definitive basis for the consolidation of its political and social progress. Unfortunately the rate of Latin America's economic expansion was decreasing. During 1953 the annual rate of increase of *per capita* income had declined from three to one per cent. The remedy lay in promoting new methods of industrialization and mechanization of agriculture. But for that domestic savings were inadequate. Uruguay's national savings were increasing continuously. They had risen from 304 million Uruguay pesos in 1946 to 620 million pesos in 1953. But in spite of his country's great efforts to increase savings, they were not nearly enough to finance all the economic development that was necessary. The total amount invested by the United States of America and by the International Bank for Reconstruction and Development in Latin America during the period 1950 to 1953 had amounted to roughly \$422 million a year on the average, or \$527 million if loans to meet balance of payments difficulties were included, whereas the interest paid out on those categories of foreign capital invested in Latin America had amounted to \$631 million a year on the average. Of the \$422 million invested by the United States and by the Bank, \$342 million had consisted of private capital and \$80 million had been provided by the International Bank and the United States Export-Import Bank. That figure of \$80 million amounted to only three and a half per cent of the total amount of public investment in Latin America. In the days when finance had been based mainly on private enterprise, roughly 20 per cent of the total amount of public investment in Latin America had consisted of foreign capital.

39. The lack of foreign public capital was one of the main reasons for the shortage of power and transport in Latin America. Uruguay needed foreign capital to improve its methods of production, increase technical efficiency, prevent soil erosion and build schools and hospitals, etc. The successive Governments of his country had, in the past years, endeavoured to bring about such improvements, and had set up suitable and strong institutions as needed, which gave rise to national satisfaction, but economic factors had acted as a brake on progress.

40. The United Nations should draw up a programme of action to supplement national efforts to raise the living standards of peoples throughout the world. It was not a question of charity. It was the duty of those countries which had the necessary means at their disposal to make a concerted effort in the general interest to help other countries which were not so fortunate to develop their economies and living standards so as to safeguard international peace and security.

41. His delegation was generally in favour of the plan for establishing the proposed Special United Nations Fund for Economic Development if sufficient contributions were forthcoming, and if the fund would co-ordinate its activities with those of the Bank, but the removal of restrictions on trade would be the most useful means of helping the economic development of countries such as Uruguay, which needed stable markets for their exports. Uruguay's production of wool had increased from 65 million kilogrammes in 1948 to 95 million in 1953; at present exports of wool accounted for 47 per cent of the total value of the country's exports. Consequently the Uruguayan delegation was most interested in means which might help to provide the country's agricultural workers with a fair return for their work, such as proposals for commodity agreements to stabilize prices, and the Costa Rican proposal that a world food reserve should be established. Free access to capital and international technical knowledge would play a major part in his country's industrialization.

42. Mr. COOPER (Liberia) said that the present general debate had clearly shown that the establishment of the Special United Nations Fund for Economic Development and of the international finance corporation, and an increase in the flow of private capital to the under-developed countries were highly desirable because it would otherwise remain extremely doubtful whether the economic development of those countries could be adequately financed. He appreciated the fact that the economically more advanced countries had heavy burdens to bear, but their economies were resilient enough to permit the immediate establishment of SUNFED on a firm financial basis without waiting for general disarmament.

43. The recent drop in world prices of raw materials had had an adverse effect on the economies of the under-developed countries, which were mainly dependent on the revenue derived from their raw material exports for financing their economic development. The prices of all the raw materials exported by Liberia had fallen, greatly reducing the country's purchasing power. There was a state of growing tension and action was urgently needed. Even if the great Powers decided not to co-operate in setting up SUNFED immediately, they should at least join in stabilizing the prices of raw materials at levels which would be fair in relation to the prices of finished products.

44. Liberia was receiving very valuable technical assistance under the United States Point Four programme; the Liberian Government had decided to allocate twenty per cent of its total revenue for carrying out basic development projects arising out of that programme. He hoped that the United Nations Expanded Programme of Technical Assistance would be consolidated and further expanded.

45. Social and economic conditions in the under-developed countries were bad because those countries lacked the means to free themselves from the yoke of misery, hunger and disease under which millions of human beings were labouring. It was the duty of the nations which possessed the necessary means for developing the under-developed areas of the world to alter their financial policies so as to make those means available for the economic development of under-developed countries, since it was only by improving economic and social conditions and raising living standards to a higher level throughout the world that it was possible to ensure world peace and stability.

46. Mr. OZGÜREL (Turkey) said that if both the exporting and the importing countries complied with the recommendations in resolution 512 B (XVII) of the Economic and Social Council, the flow of private capital for investment in the economic development of under-developed countries would improve. Certainly the flow of private capital to Turkey had greatly increased since the Turkish Government had enacted liberal legislation providing that foreign investors should be free to repatriate capital they had invested in Turkey and to export dividends whenever they wished. He believed that the adoption of resolution 557 F (XVIII) of the Economic and Social Council, including the decision to establish the Commission on International Commodity Trade, would also help to

promote the economic development of the under-developed countries.

47. Unfortunately the Economic and Social Council had not made any progress towards the establishment of the proposed Special United Nations Fund for Economic Development and the proposed international finance corporation. The Turkish Government's position with regard to that matter had not changed; it was still convinced that the international finance corporation should be established as soon as possible and, in principle, it also favoured the establishment of SUNFED. He was very grateful to Mr. Scheyven for improving the prospects for the establishment of SUNFED by brilliantly and objectively carrying out the mission with which he had been entrusted by the General Assembly. Although it was true that an increase in the flow of foreign capital to the under-developed countries and the expansion of international commodity trade would help to promote economic development, that alone would not make it possible to raise the standards of living in the under-developed countries to the level prevailing in the economically more advanced countries.

48. There were several reasons, social as well as economic, why the rate of economic progress was greater in some countries than in others. For example, in the United States, with its organizing ability, where local traditions did not constitute a barrier to economic development, the whole social environment tended to encourage rapid growth. Consequently it was not good economics to consider economic factors alone. When making plans for economic development, all the relevant social factors should also be studied. That was one reason why technical assistance was essential to ensure that the maximum benefit would be obtained from the investment of capital in economic development.

The meeting rose at 12.55 p.m.