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Chairman: Mr. Mohammad MIR KHAN (Pakistan).

AGENDA ITEM 27

Economic development of under-developed countries (A/3154, A/3192) (*continued*):

- (a) Question of the establishment of a Special United Nations Fund for Economic Development: report of the *Ad Hoc* Committee (A/3134 and Corr.1 and 2);**
- (b) International tax problems: report of the Economic and Social Council;**
- (c) Industrialization of under-developed countries**

GENERAL DEBATE (*continued*)

1. Mr. LOUGH (New Zealand) said that while the cumulative longer-term effects of the national and international efforts so far made should not be underestimated, there was as yet little evidence of any significant improvement in most of the countries with low standards of living. Furthermore, the disparity between *per capita* income in developed and under-developed countries continued to grow. Both nationally and internationally, all ways of speeding up the process of economic development with a view to raising inadequate average levels of living should be thoroughly explored.

2. It had often been assumed that high living standards could not be reached in any country until a high degree of industrial development had been achieved; that average levels of living in any country depended on its degree of industrialization. New Zealand's experience as a young and developing country did not support that assumption. In little more than a century of economic development, New Zealand had achieved an average standard of living which compared favourably with that of any other country. According to estimates made a few years previously by the economist, Mr. Colin Clark, the people of New Zealand had at that time a higher average *per capita* income than the people of any other country: 30 per cent higher than in the United States and six times higher than in the Soviet Union. Yet that high standard had not been based on a high level of industrialization; New

Zealand's economy was based on primary production, and its high standard of living was due to the high productive efficiency of its primary industries. The present level of farm productivity was to a large extent the outcome of years of agricultural research and experiment. Government agricultural research bodies and agricultural colleges had been formed at an early stage in New Zealand's development. The New Zealand farmer was able to avail himself of highly specialized knowledge and experience, and since the early nineteen-forties total farm production had risen by an average of nearly 2 per cent per annum with almost no increase in the area of improved land or in the number of people directly employed on the land.

3. Employment opportunities had been created in many industries associated with farming. The income that flowed to the farmer from the sale of his produce in world markets was spent directly or paid in wages to create a demand for other products, to satisfy which an increasing number of small industries had been established. The greater part of agricultural produce had been sold overseas to provide most of the foreign exchange needed to purchase materials and equipment for capital development.

4. The rate of increase in New Zealand's population—between 2 and 2.5 per cent *per annum* in recent years—called for a heavy capital investment programme, including the provision of houses, schools, hospitals and basic development projects. The additional working population would have to find employment mainly in secondary and servicing industries. New Zealand had therefore embarked on an intensive industrialization programme.

5. Fortunately, the productive efficiency of New Zealand's farms provided a firm basis for a rapid rate of capital development. It had been possible to maintain high consumption standards and at the same time to devote as much as 25 per cent of the gross national product to capital formation with little external borrowing and with no economic or other assistance from abroad. The increased diversion of resources to capital development had not been accomplished without some stresses and strains within the economy. Demands from the private sector were well in excess of the resources available, particularly in the construction industry, and New Zealand's main problem had been to restrain investment rather than to encourage it.

6. Capital investment, although nearly 25 per cent of the gross national product, was barely adequate to keep pace with the present rate of population increase. Hence New Zealand had no available surplus resources with which to increase its contribution to the development of other countries. Indeed it had been obliged to supplement its national resources by resuming borrowing overseas on a small scale during the past few years.

7. In common with most under-developed countries, New Zealand's dependence on foreign, and often fluctuating, markets for the sale of a small range of exports

had at times hindered its economic development. New Zealand shared the desire to diversify its economy, and that, he hoped, would be possible as a result of the rapid expansion of manufacturing industries. The attainment of that objective would be hastened by concentrating on new techniques. Higher export earnings would increase the resources available for capital development and thus accelerate industrialization.

8. He recognized the difficulty confronting statisticians in classifying primary producing and developing countries, such as New Zealand, which had a relatively high *per capita* income. In current terminology an industrialized country tended to be regarded as a country with a high living standard, and a country in the process of development was presumed to have a low standard of living.

9. On the other hand, he did not wish to underestimate the importance of industrialization to a developing country, particularly to those under-developed countries which had a problem of under-employment and surplus labour. The tendency to concentrate on industrialization might cause some countries to overlook the opportunities which existed for raising living standards and for increasing the resources available for industrialization by stimulating agricultural production. In that connexion, he recalled the remarks made on the subject by the Under-Secretary for Economic and Social Affairs in his statement to the Committee (402nd meeting).

10. Scientists and agricultural experts in New Zealand had estimated that, with the full application of existing techniques, it would be possible almost to double agricultural production in large areas of the country. Although in the under-developed countries there were obstacles to be overcome in raising land productivity, a quicker reward in the form of improved average living standards would follow from efforts to raise agricultural output than from the equally important but necessarily more slowly responsive field of industrialization.

11. His Government fully appreciated the need to increase the flow of capital and technical assistance to the under-developed countries, and was already assisting them by furnishing technical assistance under the Expanded Programme of Technical Assistance and the Colombo Plan for Co-operative Economic Development for South and South-East Asia, and by grants to Colombo Plan countries for capital development projects. Those contributions were substantial in relation to the resources of New Zealand, a country which was itself in an intensive period of economic development. Accordingly, although his Government was not opposed in principle to the establishment of a multilateral aid programme under the United Nations, it would be unable to undertake to contribute to the Special United Nations Fund for Economic Development (SUNFED). An additional flow of resources from the major industrialized countries would be possible only at the expense of some other economic activity such as the production of arms and the maintenance of armed forces. Unfortunately, the hopes which had risen after the meeting of Heads of Governments at Geneva in 1955 had not been realized. If internationally supervised disarmament were not to become a reality in the near future, countries could make a real contribution to SUNFED only by retarding their own capital investment or by foregoing some larger proportion of their current production.

12. There was little disagreement about the fact that the need for further assistance existed; but more than the mere fact was necessary before the people of the major industrial countries would be moved to support enthusi-

astically additional deductions from their earnings to increase the flow of economic assistance through a multilateral agency, and before they felt confident that all Governments receiving their contributions would not nullify their effectiveness by actions which destroyed confidence. The continuation of war-like threats, the failure to reach political settlements, the mortgaging of future export earnings in order to purchase arms and the seizure of undertakings which could not be developed without external financial assistance were ways of undermining confidence in the belief that the real desire of Governments was to improve the lot of their people. Obviously such actions and attitudes discouraged the flow of private capital to the under-developed countries.

13. In the current political situation, he feared that any move towards the early establishment of SUNFED, such as the drafting of statutes, was premature. Statutes drafted before the major contributors had decided if and how they would be able to contribute might well conflict with the type of multilateral programme likely to be acceptable to them and might delay progress towards the establishment of an effective United Nations programme. The Committee, in an understandable desire to extend the benefits of multilateral aid, should not take steps to establish SUNFED until there was evidence that adequate support for it was forthcoming. He hoped that, when the matter came up for discussion again in the General Assembly at its twelfth session, the world political atmosphere would be such that real progress could be made towards a multilateral aid programme which would, in the years to come, make a significant contribution towards raising standards of living in the under-developed countries.

14. Mr. CARANICAS (Greece) said that recent political events had tended to obscure the underlying economic issues and the widening gap between levels of living in the economically developed and the under-developed areas. Unless living standards were raised in the poorer countries, the improvement in economic conditions in the richer ones could not possibly continue. As the Secretary-General had recently said, the economic development of the under-developed countries was necessary not only in the interests of those countries themselves but also to ensure the economic stability of the world as a whole.

15. The *World Economic Survey, 1955* (E/2864) showed that the developed countries including those with private enterprise as well as those with centrally planned economies had surpassed their pre-war levels of *per capita* production and trade. Yet in the under-developed countries the problem of mass poverty remained as stubborn as ever. The economic growth of the under-developed countries had lagged behind that of the industrialized countries and, as the survey pointed out, the disparity had been intensified by their more rapid population growth.

16. The question arose whether the impressive record of full employment in most of the industrialized countries was to continue or whether the world was to witness a return to the unemployment and depression of the pre-war years. Already some unfavourable trends had appeared in the free-world economy. Any slowing down in the abnormal manufacturing boom in the industrial nations of Western Europe and North America might lead to a sharp decline in the prices of primary commodities in the under-developed countries and have dire consequences for their economies.

17. The detection and evaluation of the leading forces in the world economy and the appraisal of their probable

impact on current situations and the curve of secular growth was a very complex task. A ten-year period was an appropriate one for the study of economic trends, and the first decade after the Second World War could be compared with pre-war cycles, as it was a period of normal expansion rather than one of reconstruction. Already in 1949, both industrial and agricultural production in all major areas of the globe had reached their pre-war levels.

18. The rate of growth in commodity output in the world as a whole had been higher during the decade beginning in 1946 than in any other ten-year period or previous long-term trends. Advances in industrial output had probably been more rapid than in any other field; but, thanks to increased productivity, agricultural production had also developed at a greater tempo than at any time in the past. International trade had also strikingly increased. Since 1948-1949 the volume of all trade had risen annually at approximately the same rate as the rate of growth of world manufacturing.

19. At the same time, a high investment rate had helped to improve and enlarge productive capacity and to provide a firm basis for further expansion. On the whole, full employment had been maintained in spite of increased productivity and the industrialized world had the full benefit of the enlargement of its productive structure. Inflation had not retarded economic growth; while production, investment and international prices had stood the test of the Korean conflict. During the last three months of 1956, international prices had not been unduly affected by political events. The hectic rise in the prices of a few particularly sensitive commodities had now died down, and it seemed that there would be little effect on the continuing slow general upward trend in international prices. The petroleum shortage was likely to cause only a temporary setback in Western European countries, as additional imports of fuel from the western hemisphere, combined with other measures, would help to maintain relatively stable prices and leave their economies unimpaired.

20. American economic aid had played a large part in helping many countries to recover from the Second World War, and had enabled them to handle their economic problems with great flexibility. Since 1946 many changes had taken place in the economies of the Western European countries. Between 1948 and 1955 the volume of European exports had increased more than twice as fast as total production.

21. North America and Western Europe still occupied a dominant position in the world economy. It was estimated that in 1953 more than 80 per cent of the world industrial production, including mining, was concentrated in those areas. In 1954 they had together exported about 62 per cent of total world exports. Obviously, the demand for world products originated very largely in the industrialized countries and their prosperity and growth would still dictate prosperity and growth elsewhere for a long time to come. As Europe required more than three times as many raw material imports as the United States, it obviously had at least as great a share of responsibility as North America in the growth of the world economy.

22. The interdependence of the various parts of the world was an indisputable fact. However, that did not mean that the under-developed areas today were as completely dependent on the more advanced countries as they had been in the past. For example, since 1946 the rate of economic growth in Latin America had been more rapid than in Europe or the United States. During the boom years of the nineteen-twenties the investment rate in Latin America had been on the average 12.5 per cent of

the gross national product. Since 1947 the average investment rate had approached 16 per cent. At the same time, according to the Economic Commission for Latin America the economies of the Latin American countries had become more self-sufficient during the past decade. The share of imported consumer goods in relation to total consumption had declined. The share of imported capital goods in relation to total investment had also declined. Should the demand for export of Latin American products decline in many cases, local production would be able to satisfy more local needs than in the past, and therefore the economies of those countries would be less affected by a foreign recession. Although it was difficult to find comparable statistics regarding Asian countries, it was known that the rate of net investment in India had steadily increased during the past few years. A similar increase had probably occurred in other countries in that region.

23. From the preceding analysis it was clear that potential growth and demand were quite substantial in the industrial areas. The continuous expansion of production, income and employment reflected the growing confidence in the future on the part of consumers and producers alike. There had been no major economic setback during the past ten years. However, the question arose whether it was possible to maintain full employment and at the same time contain inflationary pressures and the upward movement of prices. The general impression was that inflationary pressures were likely to persist in the industrialized countries and to become even more pronounced. The programme of price controls which had been adopted on 28 December by the Government of the Netherlands and the stiffer monetary policies pursued in the United States and elsewhere pointed to the growing difficulties of Governments seeking to keep the present boom conditions in check. Whether that could be done by orthodox means, such as increases in interest rates, remained to be seen. The trends in the United States economy in 1957 would be of primary importance not only for the Western world but also for the under-developed countries. At present in the United States there was a violent conflict between the visible evidence of continuing strong inflationary pressures on the one hand and the less visible build-up of deflationary potentials on the other. The new Chairman of President Eisenhower's Council of Economic Advisers, Dr. Raymond Saulnier, had stated that the United States' biggest problem for several years would be how to avoid the upward movement of prices.

24. According to the *World Economic Survey, 1955*, the countries with centrally-planned economies were experiencing severe strains as a result of their rapid industrial growth. They had also been trying to fight inflation and avoid price increases. During the past decade, their policy had been to bring about a gradual decline in the price level. Cuts had been made in the money volume and also in a wide range of prices; at the same time, steps had been taken to provide for the financing of investment out of genuine savings.

25. As for the under-developed countries, it was hardly necessary to compare their relatively slow progress in recent years with the unprecedented prosperity enjoyed by the advanced countries. In spite of progress in technical knowledge, education, immigration and capital formation, the post-war situation of the under-developed countries was undoubtedly the dark feature of world economy. It was true, as Professor Jacob Viner had stated during the first conference of the International Economic Association held at Monaco in 1950, that the poorer countries

today had one great advantage which the richer countries did not have when they started to industrialize: there was available to them now a great stock of scientific and technical knowledge for the purposes of economic progress. However, the international sharing of that accumulated experience was extremely slow. The world had reached a point where re-examination of international economic co-operation appeared to be imperative.

26. The policies governing aid to under-developed countries should be re-defined and restated. The Economic and Social Council had to do much more than merely disseminate studies on the problem of industrialization, commodity prices, et cetera. Perhaps the major accomplishment of the Economic and Social Council during the past ten years was that it made the world realize the relation of economic and social progress to stability and peace. What the Under-Secretary, in his penetrating analysis of the world economic situation, had called the failure to set in motion forces of cumulative economic growth or the promotion of international trade and economic development should act as a real challenge to the United Nations.

27. Although the technical assistance programmes of the specialized agencies and the work of the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation were of great help, what was really needed was a source of international funds sufficiently large to build up the infrastructure of the under-developed countries. Naturally it was expected that the United States would continue to play a leading role in providing assistance to the under-developed countries. The announcement that the President of the United States would ask Congress to take steps to expand the economic aid programme in one of the most troubled and under-developed areas of the world was characteristic. Many representatives felt, however, that more and more funds should be channelled through the United Nations. Rightly or wrongly, memories of colonialism were still vivid and fears of communism remained strong. Economic aid would have its full effect as a force making for political stability in the under-developed countries if at least part of it were given through international organizations. The project for the establishment of SUNFED seemed to offer the last chance of achieving a united effort and of reducing the widening gap between levels of *per capita* income in the developed and in the under-developed countries. Perhaps the present political crisis would awaken Governments to the appalling dangers of the present world economic situation and to the urgency of the task of bringing increased aid through the United Nations to the backward areas of the world.

28. Mr. OMAR (Afghanistan) noted that economic and social development was proceeding at a slower pace in the under-developed than in the more advanced countries and that, as United Nations studies revealed, the gap was growing steadily. He was not suggesting that there should be any attempt to slow down the progress of the more advanced countries; indeed, their prosperity and stability were of importance to the less developed countries. The state of suffering, hunger, want and lack of shelter which confronted the greater part of humanity was acute and that situation was becoming graver and more threatening as populations increased at a rate of 2 per cent per annum; an equivalent increase in productivity would call for an 8 per cent increase in capital investment, but domestic savings were far from reaching that level in most Asian countries. It was inevitable, therefore, that such countries should resort to interna-

tional assistance. The representative of France had said that the development of the under-developed countries would be the fundamental task in the coming decades. That was true, but the task was no less urgent for the developed than for the less developed countries, since economic and social ills, poverty and distress in one part of the world gave rise to fear, disillusionment and adverse repercussions elsewhere. It was essential, therefore, for all nations to assist in breaking the vicious circle of poverty and economic stagnation prevalent in the under-developed countries.

29. In recognition of that need, most of the under-developed countries, since the Second World War, had drawn up economic, industrial and social development plans, the emphasis in each case varying according to that country's special potentialities and needs. Afghanistan had a fertile soil, together with mineral and water resources, and because of those potentialities priority was given in its plan to the development of agriculture—including, in particular, the increased production of export commodities which could earn more foreign currency—as well as to mining, basic facilities and hydro-electric power. Of the 5,748 million afghanis (approximately \$275 million) which his Government intended to devote to its development programme during the coming five years, some 46 per cent would be spent on the construction of dams and canals and on measures to increase agricultural output, 32.3 per cent on the extension of transport and communications facilities, 13 per cent on education and public health projects, 5 per cent on mining development, especially the exploration and exploitation of petroleum, and 14 per cent on the development of industrial projects. Government revenue would account for some 75 per cent of the total cost of the programme; the other 25 per cent would be procured by borrowing. The total additional foreign exchange requirements of the five year plan, over and above export proceeds, amounted to more than \$190 million. Two-thirds of the total foreign exchange needed had been borrowed from the United States, the Soviet Union, Czechoslovakia and West Germany; it was hoped that it would be possible to borrow the remaining third from abroad, especially from the United Nations financial organizations.

30. Such programmes, however, no matter how carefully devised and rigorously implemented, would be limited at the domestic level and would remain powerless to raise the standards of living of the peoples of the under-developed countries. First of all, the economies of most of the under-developed countries depended on the export of a limited number of raw materials. But the prices of raw materials on world markets were subject to more violent fluctuations than prices of manufactured goods. Recent United Nations studies showed that the prices of linseed, rubber and cotton oscillated by almost 50 per cent within a few years. Consequently, the under-developed countries could never be sure what their income from exports would be during the coming year, and their development plans and terms of trade suffered accordingly. Some efforts had been made to solve that problem, so far with little result; more were needed. The task should be approached from all angles—commodity by commodity, in order of importance in world trade—as well as in its totality, both nationally and internationally. Nationally, the questions of trade barriers, restrictions, import quotas and export subsidies should be reconsidered. Internationally, the topics for consideration were buffer stock operations, the price relationship between agricultural commodities and manufactured goods, and the industrialization of the under-developed countries. The stabiliza-

tion of world commodity prices would go far towards easing the difficulties of those countries in carrying out their development programmes.

31. Most of the under-developed countries had a plentiful supply of labour and abundant natural resources: what was lacking was an adequate supply of capital. In spite of voluntary and compulsory measures for saving, for obvious reasons, the domestic savings of those countries were not adequate to meet the need. It was therefore essential for them to look abroad for the capital they needed. But in spite of the facilities and incentives offered to foreign investments, the flow of public and private capital to the under-developed countries had been meagre. It was therefore, up to the more advanced countries now to initiate measures to encourage the flow of capital. It remained to be seen what success the International Finance Corporation would have in that direction. The bilateral arrangements of receiving loans from the advanced countries, and the long-term financial assistance given by the International Bank for Reconstruction and Development were growing, but that growth was not keeping pace with the urgent needs of industrializing the under-developed countries. As the representative of Colombia had said (402nd meeting), the Bank's loan policies were too restrictive. He hoped that they would be made more flexible, and that the Bank would play a greater part as a lender in the under-developed countries.

32. Technical assistance, advice and information on various aspects of industrialization, as outlined by the Secretary-General, were invaluable to under-developed countries, but in most cases they needed to be supplemented by the supply of capital goods. It was impossible to establish a hospital, a power plant, a research institute, or to improve the productivity of labour and industrial production by making blue-prints alone available. Technical assistance of that kind was far more useful when

accompanied simultaneously by capital investments. The Special United Nations Fund for Economic Development could help in that direction by providing grants-in-aid and long-term low-interest loans to help build the basic economic and social facilities essential to any development programme. His delegation would therefore urge that SUNFED should be set up as soon as possible, without waiting for progress in the matter of disarmament.

33. The proposal made by the representative of France (403rd meeting) for a United Nations agency for world economic development having four organs—a fund, a trade organization, a technical institute and a statistical office—was very attractive and thought-provoking. It would, however, be useless without the full support of the developed countries. The marketing of the raw materials of beneficiary countries was an intricate matter and, although the proposal was acceptable in principle—it still being in its embryonic state—it was essential that a workable system should be devised to suit both developed and under-developed countries before any attempt was made to apply it. His delegation would suggest the addition to the agency of a further unit for the evaluation of assistance rendered. It might perhaps be coupled with the statistical office in a single organ.

34. In conclusion, he stressed that under-developed countries had a high propensity to import goods, but to do so they should develop socially and economically. Such development required capital. If they were supplied with the necessary capital and assured of a stabilized market for their export commodities, the high propensity to import would play a natural part, to the mutual benefit of both advanced and economically under-developed countries.

The meeting rose at 4.50 p.m.