*United Nations*
# GENERAL ASSEMBLY
*TWENTIETH SESSION*
*Official Records*

**SECOND COMMITTEE, 996th MEETING**

*Monday, 29 November 1965, at 3.30 p.m.*

**NEW YORK**

CONTENTS



*Chairman:* Mr. Pierre FORTHOMME (Belgium).

## AGENDA ITEM 38

**Accelerated flow of capital and technical assistance to the developing countries: reports of the Secretary-General (continued) (A/5732, A/5767, A/6085; E/3905 and Add.1, E/3917/Rev.1, E/4038 and Add.1, E/4079 and Add.1; A/C.2/L.822, L.825)**

1. Mr. GALLARDO MORENO (Mexico) recalled that at the previous meeting he had proposed that some additional words should be added at the end of operative paragraph 2 of the draft resolution before the Committee (A/C.2/L.822) and that the sponsors of the draft had accepted that amendment. In order to build up their economic infrastructures and supplement their domestic savings the developing countries needed long-term low-interest loans. The developed countries must provide such loans, but at the same time they must respect the traditions of the recipient countries. Mexico, for example, insisted that private foreign capital must supplement domestic capital and also respect national law.

2. Mr. POLIT ORTIZ (Ecuador) said that Ecuador had always strictly fulfilled its international financial obligations. It treated foreign and local investors on the same footing. It had also adopted legislation granting special treatment to investments designed to assist national plans for economic and social development. It favoured all private investments which were in conformity with national development plans and which did not involve an unjustified drain on the national resources. It was for that reason that it supported the draft resolution together with the Mexican amendment to operative paragraph 2. It preferred the original text of the final preambular paragraph and would oppose the amendment of Somalia which would change the word "may" to "would".

3. Mr. BRONNIKOV (Byelorussian Soviet Socialist Republic) said that all the reports prepared by the Secretary-General on the subject under discussion had serious shortcomings. They were completely one-sided in stressing the flow of private foreign capital into the developing countries while ignoring the outflow of capital from those countries in the form of dividends, profits, high interest rates and loan repayments. They failed to make clear that the aim of private foreign capital was to pump out the maximum profits from the developing countries rather than to place their economies on a sound footing. The reports were confined to the so-called benefits of private foreign capital and completely ignored its negative aspects.

4. The developing countries had repeatedly emphasized their difficulties in meeting the high interest charges on the loans accorded to them by the more advanced countries. The outflow of capital in the form of debt servicing from those countries constituted a mounting burden on their economies so that private foreign investment was for them a hindrance rather than a help. Yet, in his reports, the Secretary-General laid undue emphasis on measures to encourage and protect such capital, completely ignoring the disadvantages and dangers which it involved. Private foreign investors were interested only in such lucrative activities as the petroleum sector and had no interest in the more important work of building up an industrial infrastructure and promoting the long-term development of the national economy.

5. The United Nations Conference on Trade and Development had discussed at length the problems of debt servicing, as shown in the Final Act.[1] In recommendation A.IV.3, it had recommended that financial assistance to developing countries by developed countries should supplement and facilitate the efforts of the developing countries to ensure the steady and uninterrupted growth of their national economy through industrialization, and it had recommended that the interest rate on State loans should not normally exceed 3 per cent annually. It had also stressed the needs of the public sector in connexion with the transfer of external resources to developing countries. However, the developed countries were far from fulfilling those recommendations and the Committee must see that they did and also ensure the implementation of such important General Assembly resolutions as 1318 (XIII) and 1710 (XVI). The Committee should also strive for the fulfilment of general principle eleven adopted by the Conference which stressed that financial assistance should not be subject to any political or military conditions and should flow to developing countries on terms fully in keeping with their trade and development needs. At the same time, in future reports the Secretary-General must avoid propaganda in favour of private foreign capital and suggest measures for protecting developing countries from its evils.

[1] See Proceedings of the United Nations Conference on Trade and Development, volume I: Final Act and Report (United Nations publication, Sales No.: 64.II.B.11).

6. Draft resolution A/C.2/L.822 was likewise one-sided: it was concerned only with attracting private foreign capital and ignored the problem of how to protect the developing countries against its dangers.

7. His delegation therefore intended to submit an amendment to operative paragraph 3 requesting the Secretary-General to evaluate the conditions on which agreements were concluded between the developing countries and private foreign investors, with a view to giving such countries a larger share of the profits reaped by such investors.

8. Mr. CUHRUK (Turkey) said that in the matter of private foreign capital co-operation between donors and recipients was improving and progress was being made as regards terms on which loans were made to the developing countries. Nevertheless, much still remained to be done. He was glad to note that the draft resolution was based on the recommendation A.IV.12 of the United Nations Conference on Trade and Development, since the delegation of Turkey, together with that of Pakistan, had taken the initiative in submitting that recommendation to the Conference. His delegation supported the draft resolution in the hope that it would further the implementation of recommendation A.IV.12.

9. Mr. RAMACHANDRAN (India), introducing draft resolution A/C.2/L.825, said that Libya, Syria, Cameroon, Mexico, Morocco, Somalia and Brazil should be added to the list of sponsors.

10. The target set in General Assembly resolutions for the flow of capital and aid to the developing countries differed in two important respects from that set in recommendation A.IV.2 of the Conference. The Assembly resolutions urged that the flow of capital should be increased until the total supply of capital and aid reached 1 per cent of the combined national incomes of the developed countries, whereas the Conference recommended that each donor country should provide financial resources equivalent to at least 1 per cent of its national income. It was the latter target which the draft resolution was intended to endorse.

11. The Secretary-General's latest report on the international flow of long-term capital and official donations (E/4079) showed that progress towards the target of 1 per cent had been disappointing: the ratio of the net flow of capital to the developing countries to the donor countries' gross domestic product had, in fact, been declining steadily from 1961 to 1964. If that trend continued, the developing countries would have a foreign exchange gap of $11,000 million at the end of the United Nations Development Decade.

12. It was generally recognized that the developing countries could not achieve self-sustaining economic growth with their domestic resources alone, but the resources available to them from international capital markets were far below what was needed to maintain even their current rate of growth. Moreover, the sharp increase in their debt-servicing obligations reduced their foreign exchange earnings considerably and thus affected their development programmes. Recommendation A.IV.4 of the Conference had proposed easier terms for development loans, and attention had recently been drawn to the need for such measures by the Development Assistance Committee of OECD, which had recommended that official assistance should be granted at low interest rates and with longer repayment periods. That Committee had also recommended that such favourable terms of lending should be applied on as wide a geographical basis as possible and that they should cease to be governed by such considerations as political and other links between donor and recipient countries.

13. There were still a number of restrictions on development loans which placed an unduly heavy burden on the invisible payments of the recipient countries. Among them were the tying of aid to particular projects or goods, and the obligation to use the services of the shipping or insurance companies of the lending country. The draft resolution urged the developed countries to implement the recommendations of the Conference concerning such restrictions.

14. The Secretary-General's report on the measurement of the flow of capital and aid (A/5732) made it clear that existing methods of measurement left much to be desired. Too little attention had been paid, for instance, to the need to make allowances for different forms of aid and for the artificially high prices of aid goods in assessing the cost to the donor country. A report on the subject by a group of experts was to be submitted to a forthcoming session of the Economic and Social Council but his delegation wished the Secretariat to make available to the Committee an interim report on the experts' conclusions on data and projections concerning the developing countries.

15. Operative paragraphs 1-4 of draft resolution A/C.2/L.825, by requesting the developed countries to implement the recommendations A.IV.2, A.IV.4 and A.IV.5 of the Conference, took into account all the problems to which he had referred. Operative paragraph 5 requested the Secretary-General to continue the valuable work on the measurement of capital and aid flows.

16. Mr. SUAREZ (Philippines) said that his delegation shared the general concern at the recent decline in the flow of long-term capital to the developing countries from both the market-economy States and the centrally planned economies, and at the increasing burden of debt servicing on development loans. A recent estimate had put the figure for the proportion of development aid returned to the donor countries in the form of service payments as high as 40 per cent.

17. His delegation was one of the sponsors of draft resolution A/C.2/L.825 and would also support draft resolution A/C.2/L.822. It was part of his Government's policy to encourage the investment of both domestic and foreign private capital in its development process on condition that primary responsibility for economic policy remained in national hands. He suggested that the reference in the fourth preambular paragraph of the draft A/C.2/L.822 to "direct private foreign investment" should be amended in such a way as not to exclude indirect or portfolio investment, which was probably an unintentional omission.

18. Mr. MASLENNIKOV (Union of Soviet Socialist Republics) said it was apparent from the reports before the Committee hat the traditional capitalist

investment policies of the colonialist countries were still being applied in their assistance arrangements. The characteristic feature of such policies was undue emphasis on the investment of private capital in the exploitation of the developing countries' natural resources which under existing conditions generated more profit than, say, investment in industrial development. The reluctance of the developed market-economy countries to alter a situation in which the developing countries acted as suppliers of cheap raw materials was well known, and the developing countries' efforts to correct the resulting imbalance in their economic structure by offering incentives for foreign private investment in manufacturing and other industries had met with little success. The net result to the developing countries of such concentrated investment in infrastructural projects was that the rate of capital outflow continued to rise through the repatriation of increasingly high profits on investments.

19. Faced with such obstacles, some developing countries had taken advantage of the readiness of the socialist countries to provide the assistance they required. The socialist countries' assistance was directed towards the creation of domestic productive capacity by the establishment of heavy industry and the installation of power networks which, in turn, would form the basis for new and economically advantageous industries. Moreover, all those industries became the property of the developing country concerned, instead of being mere subsidiaries of foreign enterprises. The Soviet Union was not concerned with extending its economic influence in the developing countries and it therefore granted long-term credits at low rates of interest to those countries in order not to hamper their development efforts with a heavy burden of debt servicing. It was the favourable terms of the assistance granted by the socialist countries which had induced the international lending institutions to consider easing the terms on which their development finance was provided.

20. The efforts being made to develop a proper system for measuring the flow of long-term capital and donations to developing countries were useful, but the experts, in their further study of that subject, should take into account the need for proper statistics on capital flows, the effect of the latter on the national income of the recipient countries and the impact of the outflow of repatriated returns on investment on their balance of payments. There should be a detailed and objective study of the role of private foreign capital in the economies of the developing countries and of methods of controlling such capital. It was also important that the necessary surveys should be made by teams of experts from all countries, including the socialist countries.

21. Mr. MWIINGA (Zambia) said that, in spite of all their promises, the developed countries had failed to respond to the appeals to increase the supply of capital to the developing countries. For example, most donor countries restricted part of their financial aid to purchases of their own products, a restriction which, if continued, could only lead to undesirable consequences for the recipient country. His delegation therefore agreed that the accent should be on more multilateral aid, because it could be supplied through international organizations which had no vested interest in the matter.

22. Zambia was second to none in the incentives which it offered to private foreign investors. Nevertheless, it had received very little foreign capital. Foreign investors argued that investment was less profitable in developing than in developed countries. That was not true: some of the embryonic industries in the developing countries offered the highest profits in the world. Nor did it help much to advise the developing countries to prepare detailed economic plans; what they needed was development capital to implement their plans. Apparently, the developed countries did not yet fully realize that investment in the developing countries would bring benefits to both groups of countries. For its part, Zambia could accept any form of aid provided it was given without restrictions.

23. Zambia was a co-sponsor of draft resolution A/C.2/L.825 because it firmly believed that it would help to solve some of the problems of accelerating the flow of capital and assistance to the developing countries. It could also support draft resolution A/C.2/L.822 provided there was no duplication with the other text.

24. Mr. TARDOS (Hungary) stressed that the rate of increase in the debt servicing of the developing countries was alarming. Interest payments amounted to about 25 per cent of the long-term loans and donations they received. In addition, their balance of payments suffered from the remittance of profits to foreign private enterprises. Of the $8,000 million received by the developing countries in 1964 as additional resources for economic development, servicing absorbed some $2,500 million or about 30 per cent. The repatriated profits of United States private companies alone amounted to almost $2,000 million, or 15 per cent of the total value of such investments in the developing countries. Thus interest and profit transfers represented about 55 per cent of the capital received by the developing countries. In certain areas the figure was even higher.

25. Another major cause of concern for the developing countries was the deterioration in the terms of trade. They had declined by 15 per cent between 1955 and 1964, representing a loss in earnings of about $4,000 million. It was therefore difficult, in the face of such figures, to understand why certain Western countries were so proud of the assistance they gave.

26. Most developing countries preferred multilateral financing of the type that would be available from a United Nations capital development fund. Many complaints had been levelled against the high interest rates charged by the World Bank, from which the United States Government derived great advantages. The United States borrowed from the World Bank on terms more favourable than those given to other countries and, between 1957 and 1962, the Bank had invested 60 per cent of newly borrowed resources in United States government bonds and paid interest 0.6 to 0.8 per cent higher than it received on its investments.

27. His delegation could support draft resolution A/C.2/L.822, but felt that the second preambular

paragraph and operative paragraph 2 should be reworded. The developing countries should draw a distinction between the assistance given by the developed capitalist countries and that provided by the developed socialist countries. The latter were not concerned with exploitation and the fact that they had eased their credit terms had forced the Western capitalists to follow suit.

28. Mr. PETERS (Dahomey), speaking on behalf of the co-sponsors of draft resolution A/C.2/L.822, said that the Mexican amendment of paragraph 2 had been accepted because it would effectively safeguard the interests and sovereignty of the developing countries. With the agreement of the Belgian representative, he proposed that the beginning of operative paragraph 1 be altered to read as follows: "Asks Governments to give serious consideration to the recommendations". In view of the clear references to Economic and Social Council resolution 1088 (XXXIX) made in the draft resolution A/C.2/L.825 which had just been presented, the French proposal to include two of its paragraphs in that resolution seemed unnecessary. The representatives of the Soviet Union and the Byelorussian SSR had objected to the last preambular paragraph on the ground that it was one-sided. However, the paragraph did not exclude other forms of investment, and the developing countries must obtain capital from every possible source. The Mexican amendment should satisfy their fears for the sovereignty of the developing countries. He agreed with the Philippine representative that there was no need for the word "direct" in the same paragraph.

29. Mr. RENAUD (France) agreed that the two draft resolutions on the same item should avoid repetition. However, the aid target of 1 per cent of the national income of the developed countries must be attained. He therefore proposed that the following paragraph should be inserted after the first preambular paragraph of the draft A/C.2/L.822 "Taking into account the recommendation contained in annex A.IV.2 of the Final Act of the United Nations Conference on Trade and Development". The flow of capital from France to the developing countries totalled some $1,340 million annually, of which a large proportion was in the form of governmental aid. The draft resolution should therefore give a comprehensive picture and reflect those points upon which agreement had been reached at the Conference. The interpretations placed upon recommendation A.IV.12 by a number of delegations attending the Conference were still valid.

30. Mr. RAMACHANDRAN (India) introduced certain amendments to draft resolution A/C.2/L.825. On the suggestion of the Algerian representative, a new paragraph would be inserted after the sixth preambular paragraph, recalling Economic and Social Council resolution 1089 (XXXIX). In accordance with the Argentine proposal, the words "has failed to attain the necessary increase" would be substituted for "has virtually ceased to increase" in operative paragraph 1. The Secretariat had pointed out that the Secretary-General would have difficulty in submitting his final proposals to the Council at its fortieth session. Operative paragraph 5 would therefore refer to the forty-first session. Lastly, he announced that Argentina and Peru had become sponsors of the draft resolution.

31. Mr. Saad KHALIL (United Arab Republic) said, with regard to draft resolution A/C.2/L.822, that his country was not opposed to private capital investment, but the sovereignty of the developing countries over foreign private capital must be ensured to avoid exploitation. He doubted whether private capital contributed to the rapid economic development so necessary to the developing countries. Studies should therefore be undertaken by the Secretariat to see why private capital was concentrated in certain sectors such as crops and the extractive industries, whether the profits it earned were justified, and whether it could be diverted to other sectors, such as heavy industry, where national sources were inadequate. He understood that the World Bank was preparing a convention to safeguard private investment in developing countries. There was no need for the Committee to stress such safeguards, thereby attributing a kind of sovereignty to private capital. The draft resolution should refer to the history of private capital and provide safeguards for the future and remedies for past wrongs.

32. Mr. MAGOMBE (United Republic of Tanzania) pointed out that the objections expressed by the representative of the United Arab Republic were already met by the reference in the draft resolution to the recommendations set forth in the recommendation A.IV.12 of the United Nations Conference on Trade and Development.

33. Mr. BARIGYE (Uganda) suggested that the Committee should defer its decision on both the draft resolutions until the following day, since they had been recently introduced and many amendments had been submitted.

34. In view of what had taken place since the Chairman had submitted his first note on the organization of the Committee's work (A/C.2/L.788) and the probable difficulty of meeting the deadline of 10 December for the end of substantive discussions, it would be useful if the Secretariat could submit another paper showing the present state of the work programme and offering suggestions.

35. After a procedural discussion in which Mr. BLAU (United States of America), Mr. DIAKITE (Mali), Mr. TELL (Jordan) and Mr. PETERS (Dahomey) took part, the CHAIRMAN announced that the Committee would defer its decision on draft resolutions A/C.2/L.822 and A/C.2/L.825 until the following day.

The meeting rose at 6.25 p.m.

Litho in U.N. 77201—March 1966—2,150