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CONTENTS



Chairman: Mr. Janez STANOVNIK (Yugoslavia).

## AGENDA ITEMS 12, 29 AND 74

**Report of the Economic and Social Council (chapters II (sections I, II and III A, except paragraphs 189-198), III, IV and VII (section I and paragraph 645)) (A/4415) (continued)**

**Economic development of under-developed countries (continued):**

**(a) International flow of private capital: report of the Secretary-General and recommendations thereon by the Economic and Social Council (A/4487, E/3325 and Corr.1-3);**

**(b) Question of the establishment of a United Nations capital development fund: report of the Secretary-General (A/4488, E/3393, E/3393/Add.1-4);**

**(c) Methods and techniques for carrying out a study of world economic development: report of the Secretary-General and comments thereon by the Economic and Social Council (A/4489 and Add.1, E/3379, E/3379/Add.1-7);**

**(d) Promotion of wider trade co-operation among States: report of the Secretary-General (A/4490, E/3389)**

**Land reform (A/4439) (continued)**

### CONSIDERATION OF DRAFT RESOLUTIONS (A/C.2/L.495/REV.1) (continued)

1. Mr. ALI (Pakistan), introducing the two-Power draft resolution on international credit insurance (A/C.2/L.495/Rev.1), said that the role of private capital in the development of the under-developed countries was universally recognized. However, the "Summary and Conclusions" in the Secretary-General's report on the international flow of private capital 1958-1959 showed that of the $5,300 million invested by the main capital-supplying countries in 1958 $4,100 million had gone to highly industrialized countries and only $1,200 million to under-developed countries. The figures showed that foreign private capital was attracted mainly to countries like the United Kingdom, Canada and Australia, which enjoyed stable political and economic conditions. While entrepreneurs could overcome manpower and marketing difficulties, they were powerless to change the political and economic climate in the capital-importing countries. It was in that area that action was required on the part of Governments, the United Nations and international financial organs. One form of action that could do much to stimulate industrial development in the less-developed countries was insurance against the risks that discouraged long-term advances of private funds.

2. Existing arrangements covered export credits for short- or medium-term transactions and insurance against the insolvency of borrowers as well as against inconvertibility, war and revolution. Some capital-exporting countries, notably the United States, Japan and the Federal Republic of Germany, had concluded bilateral agreements offering insurance facilities to cover non-business risks for investors in under-developed countries. As a result, private investments from those countries had substantially increased and the adoption of similar methods by other capital-exporting countries would greatly assist the under-developed countries in attracting foreign investments. Some of the under-developed countries, including Pakistan, had offered guarantees and tax concessions to foreign investors; others had entered into agreements for the avoidance of double taxation.

3. Notwithstanding such measures, the flow of private funds to the under-developed countries was inadequate and must be increased. The draft resolution concentrated on arrangements for the insurance of credit extended to businessmen in the less developed countries. Existing arrangements were inadequate because they applied only to exports of goods and to short- and medium-term credit. Credits which were freely usable offered much greater flexibility and were more economical to the borrower than those extended only in respect of goods from one particular country. They would also make for freer trade.

4. The period for which credits were extended was of even greater significance. Few businessmen from the under-developed countries could make use of existing credit insurance facilities which were accorded for a maximum of seven years. Their Governments could not assume responsibility for foreign remittances over such a short period. It had become increasingly clear that credits must be long-term if the international solvency of the under-developed countries was to be maintained and their development programmes were not to be impaired.

5. The sponsors of the draft resolution considered that if both national and international arrangements could be made to insure freely usable long-term credits made available to private entrepreneurs in the under-developed countries, the course of industrial development would run much more smoothly and rapidly. They had therefore proposed that the Secretary-General should examine the feasibility of such arrangements together with the other measures envisaged in Council resolution 762 (XXIX).

6. Mr. FRANZI (Italy) said that his delegation fully supported the draft resolution. He called attention to the fact that the Secretary-General had already requested information from Governments on credit insurance with the questionnaire sent to Governments in accordance with Council resolution 762 (XXIX). On the other hand, the draft resolution rightly drew the Secretary-General's attention to other important aspects of the problem. In the opinion of his delegation, the report called for in the operative paragraph could be included in the more comprehensive report which the Secretary-General had to submit in pursuance of Council resolution 762 (XXIX).

7. Mr. DANGEARD (France) pointed out that insurance arrangements already existed for short and medium-term credits and asked whether the sponsors had in mind orthodox short— and medium—term export credit insurance or the insurance of long-term bank credits not specifically tied to exports.

8. Mr. CHERNYSHEV (Union of Soviet Socialist Republics) failed to see the need for international institutions for regulating relations between foreign private investors and the Governments of under-developed capital-importing countries, or for international arrangements to insure foreign private investments. The matter was a purely domestic concern of Governments wishing to attract foreign capital and should be decided by them on the basis of their sovereign rights over their natural resources. His delegation would therefore abstain from voting on the draft resolution.

9. Mr. FINGER (United States of America) said that his delegation would support the draft resolution. As the Pakistan representative had rightly stressed, foreign private investment could make an immense contribution to economic development and every possibility of increasing the flow of private funds to the less developed countries should be explored. In the United States, credit insurance was provided under the investment guarantee programme, the scope of which was not confined to short— and medium-term credit. His Government would welcome the creation of similar institutions in other countries and would be glad to share the experience it had gained in that field. It would also welcome a study of the feasibility of establishing international credit insurance institutions, although it could not commit itself in advance to participation in any plan that might result from the adoption of the draft resolution.

10. Mr. MAHDAVI (Iran) said that he agreed with the Pakistan representative that foreign private investment was an essential factor in the development of under-developed countries. His delegation would support the draft resolution, which indicated an effective means of encouraging the flow of private funds by appropriate insurance arrangements.

11. Mr. KAUFMANN (Netherlands) said that he would support the draft resolution. Although long-term export credits would benefit countries no longer in a position to repay short— or medium-term loans, he doubted whether a mere extension of the term would provide a solution, since exporters able to supply the required goods at the most favourable price were not always able to offer long-term credit. He welcomed the reference in the draft to Economic and Social Council resolution 762 (XXIX), which called for a wider study of means of promoting private investments, including measures to facilitate the adjustment of investment disputes.

12. Mr. KAKITSUBO (Japan) observed that his delegation welcomed the steps already taken under General Assembly resolution 1318 (XIII) and Economic and Social Council resolution 762 (XXIX) to encourage and protect private investments in the under-developed countries. His delegation was in sympathy with the purposes of the draft resolution and would support it, although it seemed premature to discuss the merits of international credit insurance institutions as an incentive to private investment. The subject would require careful study and he hoped that in preparing his report the Secretary-General would consult the international financing agencies and would take into account the views of qualified persons in both capital-exporting and capital-importing countries.

13. Mr. CARANICAS (Greece) said that he agreed with the Pakistan representative that additional credit insurance institutions and arrangements were necessary, as existing credit insurance arrangements were restrictive and frequently unfavourable to the under-developed countries. Insurance normally gave only 75 per cent cover against political and other risks, while premiums varied greatly and were often inordinately high. His Government had already proposed the establishment within OECD of an international export credit guarantee unit to stimulate the flow of capital. The creation of such international institutions could facilitate the flow of investments to under-developed countries in periods of recession and at the same time support demand in the advanced countries.

14. He thought that the study proposed in the draft resolution should initially be limited to international credit insurance institutions. A detailed study could be made of national institutions at a later stage. He would therefore prefer the deletion of the words "national and" from the operative paragraph.

15. Mr. ERHARDT DEL CAMPO (Argentina) said that while his delegation would support the draft resolution, it wished to maintain its reservation regarding the reference to the international arbitration of investment disputes in Economic and Social Council resolution 762 (XXIX).

16. Mr. WOULBROUN (Belgium) considered that the reference to national credit insurance institutions in

the draft resolution as at present worded was not entirely satisfactory, since such institutions already existed. It might be more appropriate to request the Secretary-General to report on the methods used by existing national credit insurance institutions and the feasibility of establishing international arrangements.

17. Mr. SILVA SUCRE (Venezuela) said that his delegation would support the resolution, but would maintain the reservation it had made before the Economic Committee at the twenty-ninth session of the Economic and Social Council regarding resolution 762 (XXIX).

18. Mr. BERCKEMEYER (Peru) said that his delegation would support the draft resolution, although he felt, like the French representative, that the specific type of credit insurance the sponsors had in mind should be made clear. His delegation agreed with the Soviet representative that the question was essentially a matter for national decision, but would point out that it was often impossible to provide financing for national credit insurance arrangements, whether public or private.

19. Mr. ALI (Pakistan), replying to the Italian representative's comments, confirmed that the sponsors' intention was that the report in question should be part of the report to be submitted to the Economic and Social Council by the Secretary-General under Council resolution 762 (XXIX). They felt, however, that the particular aspect of the question of increasing the flow of private capital which they had in mind had not hitherto been sufficiently emphasized and should be brought to the Secretary-General's attention.

20. With reference to the French representative's question, he said that the draft resolution referred to credits only, and not to investments. The sponsors considered that the term investments referred to capital participation in a particular undertaking, whereas credit meant the extension of loans without equity participation. His own country had found by experience that the insurance extended by certain countries was helpful in encouraging equity participation. However, where such participation was unjustified or unattractive to foreign investors, the businessmen of under-developed countries who needed credit in order to buy goods or equipment abroad often found that foreign lenders were not prepared to take the risks involved. The balance of payments difficulties of the under-developed countries also affected the question, since the businessmen of under-developed countries were required to repay foreign loans in foreign currencies and usually within five years. The Governments of the under-developed countries were finding it increasingly difficult to make repayments on such terms, and unless the loan-periods were extended to at least fifteen years it would be virtually impossible for the under-developed countries to accept any credits from foreign countries. Moreover, although the export credits extended by some countries were helpful, they applied only to exports from the lending country itself, and thus involved difficulties for businessmen who sought credit from a particular country without necessarily wishing to buy what they needed in that country. The primary purpose of the draft resolution was to seek methods by which those difficulties could be overcome and thus to create conditions in which private enterprise in the under-developed countries could operate more freely.

21. It had been found by experience that national insurance institutions shared the apparently ingrained reluctance of business circles in the capital-exporting countries to risk their money for longer than five or six years at the most. The sponsors of the draft resolution had in mind the possibility of international re-insurance in cases where national insurance institutions would find it difficult to extend insurance for periods of fifteen or twenty years. He did not feel that the reference to national institutions or arrangements should be deleted from the draft resolution, since it would be difficult to make recommendations on international arrangements to supplement such national arrangements unless attention was given to the feasibility of establishing those national institutions or arrangements. He agreed with the Belgian representative that the draft resolution might well include a recommendation that existing national credit insurance arrangements should be studied. In connexion with the Netherlands representative's remarks, he agreed that credit insurance would not by itself stimulate the flow of private capital; however, the sponsors of the draft resolution had sought to limit themselves to the very narrow practical field he had outlined.

22. Mr. DANGEARD (France) said it was clear that what the sponsors had in mind was neither commercial export credit insurance of the kind offered by some countries nor investment insurance, but financial insurance covering the extension of credit in such forms as bank loans to enterprises in under-developed countries or the purchase of bonds issued by such enterprises. In the light of that explanation, his delegation was prepared to support the draft resolution, but felt that it should be revised to indicate clearly that the insurance in question was of the financial type he had referred to. The French Government had been traditionally reluctant to enter the field of investment insurance but, recognizing the limitations of the medium-term commercial credit insurance it provided, had recently decided to extend the term for which such insurance was offered from five to ten years.

23. His delegation supported the Belgian proposal that existing national credit arrangements should be taken into account in the proposed study, and felt that it would be unwise to eliminate from the study an examination of the feasibility of national institutions or arrangements.

*The meeting was suspended at 12.15 p.m. and resumed at 12.30 p.m.*

24. Mr. ALI (Pakistan) said that, in the light of comments made by other delegations, the operative paragraph had been reworded to read:

> "Requests the Secretary-General, when reporting on measures designed to promote the flow of private capital as envisaged in Economic and Social Council resolution 762 (XXIX), to report also on the feasibility of extending the scope of activities of existing national credit insurance institutions, of creating new institutions or arrangements of this kind and of establishing international credit insurance organizations, keeping in view especially the difficulties encountered by the economically less developed countries with regard to their balance of payments".

25. Mr. CARANICAS (Greece) felt that the revised text broadened the scope of the joint draft resolution

and might make the Secretary-General's task more difficult.

26. Mr. FRANZI (Italy) thanked the sponsors for having accepted his suggestion.

27. The CHAIRMAN said that the under-Secretary for Economic and Social Affairs had informed him that the new wording would cause no difficulty to the Secretariat.

*The draft resolution (A/C.2/L.495/Rev.1) was adopted by 54 votes to none with 9 abstentions, as amended.*

28. Mr. MAHDAVI (Iran) and Mr. GREEN (New Zealand) explained that they had been absent during the vote and wished to record votes in favour of the two-Power draft resolution.

29. Mr. HASSAN (Sudan) said that he had voted in favour of the two-Power draft resolution because it would provide a basis for a more accurate diagnosis of the problems of increasing the international flow of private capital. The proposal represented an important contribution towards the economic development of the under-developed countries and the Secretary-General's report should reveal the importance of extending longer-term and more freely usable credit. He hoped that the Special Fund authorities would be consulted during the preparation of the report requested.

*The meeting rose at 12.50 p.m.*

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