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CONTENTS



*Chairman:* Mr. Jorge Pablo FERNANDINI (Peru).

## AGENDA ITEM 42

External financing of economic development of the developing countries (continued) (A/6703 and Corr.1, chap. V, sect. I; A/6703/Add.1, chap. IV; A/6848, E/4408/Rev.1):

(a) Accelerated flow of capital and technical assistance to the developing countries: report of the Secretary-General (E/4274 and Add.1, E/4293 and Corr.1 and Add.1 and 2, E/4327, E/4371 and Corr.1, E/4375);

(b) Outflow of capital from the developing countries: report of the Secretary-General (E/4374 and Add.1 and 2 and Add.2/Corr.1)

1. Mr. TIWARI (India) said that the target of a 5 per cent annual growth rate for the United Nations Development Decade had by no means been ambitious but that its achievement would require a doubling of the rate of investment in the developing countries. Undoubtedly, those countries had to make the main effort but foreign economic aid was crucial in order to overcome the inevitable lag in their savings. To achieve even a modest improvement in their living standards, they would require substantial capital assistance on suitable terms from the developed countries.

2. In resolution 2170 (XXI), the General Assembly had endorsed Economic and Social Council resolution 1183 (XLI). However, the sponsors of the latter resolution noted with concern that no progress was being made in its implementation. So far, the Committee had been given only one of the reports requested in the resolution; namely, the report of the Secretary-General entitled "Factors affecting the ability of developed countries to provide resources to the developing countries" (E/4375).

3. The available facts and figures clearly showed that the performance of the world community in providing external resources to developing countries was poor, with regard both to volume and terms. The Economic and Social Council in its resolution 1183 (XLI) urged the developed countries to reach and, if possible, to surpass by 1970, the objective of supplying to developing countries external resources equivalent to 1 per cent of their individual national income. The Secretary-General's annual report entitled International Flow of Long-term Capital and Official Donations, 1961-1966 (E/4371 and Corr.1) showed that the net flow of external resources to developing countries, which in 1961 had constituted 0.83 per cent of the combined gross national product of the market economies, had declined steadily to reach 0.65 per cent in 1964. Although the ratio had risen to 0.70 per cent in 1965, there was no certainty that the trend would continue. The report also showed that in 1965 only two of the developed market economies had provided the developing countries with resources amounting to over 1 per cent of their gross national product. It was significant that the only countries which had increased their aid were small contributors. However, it was heartening to note that, in 1966, the centrally planned economies had almost doubled their credit commitments.

4. For the first time, the Secretary-General's report mentioned the transfer of resources among developing countries themselves. In that connexion, despite its own difficulties, India had endeavoured to provide other developing countries with economic and technical assistance. It had undertaken to train several thousand nationals of other countries under the Colombo Plan and the United Nations Development Programme (UNDP) and was co-operating with other developing countries on a bilateral and multilateral basis.

5. The Secretary-General's report on factors affecting the ability of developed countries to provide resources to the developing countries (E/4375) emphasized the balance-of-payments difficulties experienced by many donor countries. It was to be hoped that the new scheme of special drawing rights of the International Monetary Fund (IMF) would enable them to pursue a more liberal policy in providing external resources to developing countries. The report also contained some interesting suggestions about the measures to be taken to alleviate other obstacles to the flow of resources to developing countries, such as budgetary constraints.

6. Turning to the question of the terms of aid, he pointed out that, so far as interest rates and periods of repayment were concerned, Economic and Social Council resolution 1183 (XLI) set a definite target to be attained by 1968. The Secretary-General should

provide detailed information on what had been done in that regard and the developed countries should make greater efforts to give their assistance in the form of grants and of loans at low rates of interest and with long periods of repayment. The International Bank for Reconstruction and Development (IBRD) had drawn attention to the problem posed by the mounting debt-service burden of the developing countries. If loans to the developing countries continued to be made at current interest rates and on existing terms, it was estimated that after 1975 there would be a net transfer of resources from those countries to the developed countries. Council resolution 1183 (XLI) contained important recommendations on the untying of aid. It was also essential to increase the proportion of non-project aid. The burden imposed on the developing countries was further aggravated by the creditor countries' insistence on repayment being effected entirely in convertible currencies. The resolution also emphasized the need for long-term and continuing commitments to ensure that the developing countries would have a continuous flow of external resources that was unaffected by non-economic considerations.

7. The report prepared by a group of experts appointed by the Secretary-General, entitled Measurement of the Flow of Resources to Developing Countries (E/4327) had helped to clarify the problems involved in such measurement; the recommendations in the report should be implemented.

8. Since it was only a progress report, the Secretary-General's report entitled "Outflow of capital from the developing countries" (E/4374) would have to be discussed at a later stage. However, since the volume of the reverse flow of capital from the developing to the developed countries was threatening to assume very serious proportions, consideration of urgent measures to deal with the problem could not be delayed.

9. His delegation welcomed the conclusions and recommendations contained in the Secretary-General's reports entitled Promotion of Private Foreign Investment in Developing Countries (E/4293 and Corr.1) and Export Credits and Development Financing (E/4274). India had always welcomed private foreign capital on reasonable terms.

10. In conclusion, he urged the developed countries to approach the question of the United Nations Capital Development Fund in a spirit of understanding and goodwill and asked the principal Governments involved to make urgent efforts to replenish the resources of the International Development Association (IDA).

11. Mr. ABE (Japan) expressed concern at the somewhat disorderly way in which the Committee was working. Members should be notified in sufficient time of any changes in the programme of work, so that they could make arrangements accordingly.

12. His delegation appreciated the documents prepared by the Secretariat. Their content could, however, be improved if more comprehensive and meaningful data were given than those previously contained in the Secretary-General's annual reports on the international flow of long-term capital and official donations.

13. The recommendations in the report of the group of experts on the measurement of the flow of resources to developing countries (see E/4327, pp. xiii-xv) would be of immense value in that regard, especially in reconciling United Nations data and the figures compiled by the Organization for Economic Co-operation and Development (OECD). The task of improving the data on capital flow could not, however, be left solely to the Secretariat and Member States; both developed and developing States, regardless of their economic and social systems, should give their co-operation. His delegation was grateful for the work done by the group of experts but, with respect to the denominator of the 1 per cent target, it continued to prefer the use of net national product as it better represented a donor's capacity to give aid.

14. The Secretary-General's report on the international flow of long-term capital (E/4371 and Corr.1) painted a rather disquieting picture. Japan agreed that the volume of the flow of resources was not proportionate to the needs of the developing countries. It would, however, be an over-simplification to assume that economic growth in developed countries would automatically bring about a concomitant increase in their capacity to extend development assistance. A high growth rate could simply be the result of strong domestic demand, which might lead to budgetary and balance-of-payments difficulties, preventing the country from increasing its aid. The relationship between economic growth and aid-giving capacity in the developed countries should be regarded as a long-term question. It was therefore important to examine carefully the factors affecting the ability of developed countries to provide resources to the developing countries, as the Secretary-General had done in his report (E/4375).

15. In that report, the Secretary-General stated that most voters were not interested in international questions. So far as Japan was concerned, that statement was an exaggeration. If the Japanese legislature had been preoccupied only with domestic poverty, its aid appropriations would undoubtedly have been much smaller. Japan was a small country with few natural resources and, in terms of per capita income, ranked only twenty-second in the world. If the Japanese economy was considered in terms of national wealth rather than national income, the gap between Japan and the other industrialized countries became even more obvious. Nevertheless, the Japanese people were quite willing to contribute to the well-being of their fellow men in the developing countries. As a result of their own efforts to raise their standard of living in adverse conditions, they realized the difficulties faced by other countries. Between 1961 and 1966, the volume of development aid provided by Japan had almost tripled; that was a considerable achievement. A country's aid efforts should not be judged solely by the results, but also by the conditions under which such efforts had been made. The problem which Japan was facing could not be solved by any of the measures suggested by the Secretary-General with a view to insulating development finance from budgetary or balance-of-payments difficulties. The solution to the problem lay in government efforts to inform taxpayers of the importance and complex nature of development assistance and of the increasing efficiency

with which it was being used as both donors and recipients gained in experience. The public would of course have to be told that the task was a long one but that it was worth the sacrifice. In that regard, the developing countries should make further efforts to mobilize the available resources by effectively implementing their development plans and introducing various institutional reforms.

16. Private capital was often the best way of accelerating economic growth and diversifying the developing countries' economies. It was encouraging to note that the recipient countries were gradually adopting a less doctrinaire attitude towards the profit motive of private investors. For that reason, the Japanese Government had been taking various measures to promote private investment in the developing countries. It was giving financial assistance to private investors, establishing an investment guarantee system, granting tax concessions to private firms investing in developing countries and concluding commercial treaties containing provisions for the protection of private investment. However, the private sector was particularly sensitive to economic factors. Thus at least some of the private capital which might have been invested in developing countries had gone to developed countries, where there were practically unlimited opportunities for profitable investment. Under such circumstances, those developing countries which were anxious to attract private foreign capital should create an appropriate investment climate, by offering investors favourable conditions. The measures adopted to that end by certain developing countries were to be welcomed. In addition, Governments and private enterprises should work together to find a way of harmonizing development programmes and investment policies. Of course, even then divergencies of interest would arise and have to be reconcilied. In that connexion, the establishment of the International Centre for Settlement of Investment Disputes was a significant step. Japan had ratified the Convention of March 1965 establishing the Centre, in the hope that it would help to promote the flow of private capital to the developing countries.

17. The CHAIRMAN pointed out in reply to the remarks made by the Japanese representative, that so far the programme of work in document A/C.2/L.952 had been strictly adhered to. It was true that it would not be possible to conclude the consideration of agenda item 42 as scheduled, but the programme of work should not be made too inflexible. In any event, there was no need to draw up a new programme before the end of the resumed forty-third session of the Economic and Social Council. The Secretariat would then circulate another document announcing certain new arrangements. To that end, delegations should not wait too long before submitting their draft resolutions on the various agenda items.

18. Mr. RANKIN (Canada) regretted that the flow of capital to the developing countries had not kept pace with the growth in the national income of the developed countries. However, the volume of assistance was not the sole criterion of its adequacy. Its quality—the terms on which it was granted, the proportion of tied aid and its geographical distribution—was also of great importance. The position in that regard was not encouraging. Realizing that something had to be done, Canada had in 1966 provided almost 90 per cent of its assistance in the form of grants and development loans at interest rates of 3 per cent or less. The bulk of its development loans were now interest-free, with a maturity period of fifty years. Of necessity rather than by conviction, his country still tied the major portion of its bilateral aid to the purchase of Canadian goods and services. However, a growing proportion of Canadian aid was channelled through international agencies and was therefore already untied. So far as bilateral aid was concerned, Canada hoped to reach agreement with the principal donors and untie it gradually. In the meantime, it was doing its best to mitigate the adverse effects of aid tying.

19. Turning to the report on the promotion of private foreign investment in developing countries (E/4293 and Corr.1), he said that the pattern of private capital flows to developing countries was largely determined by underlying economic forces. The high rate of economic growth in the leading industrial countries had provided exceptional investment opportunities and had undoubtedly diverted some private capital from the developing countries. Those countries, for their part, had to provide an appropriate climate for such investment. His delegation endorsed the suggestions on that subject made in the Secretary-General's report (assurances with respect to the transfer of capital and earnings, utilization of the recipient countries' human and physical resources by foreign investors, tax concessions, etc.).

20. In connexion with the report on export credits and development financing (E/4274), he recalled that his delegation had supported Economic and Social Council resolution 1270 (XLIII), in which the Council had requested the Secretary-General to consult with Member States on the best means of establishing the most practical national and regional schemes for the financing of capital goods exports by and among the developing countries. It looked forward to seeing the results of that study.

21. The question of the outflow of capital from the developing countries undoubtedly deserved serious consideration. Yet statisticians were still hampered by the lack of reliable information on the amount of the outflow. In that connexion, it was to be hoped that more States would respond to the Secretary-General's questionnaire (see E/4374).

22. It appeared from the Secretary-General's report (E/4374) that the basic question was simply the amount of financial assistance which the developing countries were receiving. In that regard, the replenishment of the resources of IDA was of crucial importance. At the joint meeting of IBRD, IDA and IMF which was held in September at Rio de Janeiro, the Canadian Minister of Finance had stated in that connexion that the level of the resources should be substantially higher than at present. Yet the countries which were best able to help the developing countries were currently experiencing budgetary and balance-of-payments difficulties. It might therefore be necessary to build into the replenishment of IDA resources some balance-of-payments safeguards. Such safeguards should, however, be temporary and not affect the obligation of donor countries to give more aid but

merely enable them to postpone it. Canada, for its part, was prepared to increase its aid programme. It supported the relevant resolutions of the Economic and Social Council and the United Nations Conference on Trade and Development (UNCTAD).

23. Mr. PATRIOTA (Brazil) said that the unsatisfactory situation of developing countries at the present time was mainly due to the persistent decline in the flow of international capital and the deterioration in the terms of assistance. As a percentage of the gross national product of the developed-market economies, financial assistance had fallen from 0.83 per cent a year in 1961 to 0.64 per cent in 1966. Although the national income of the developed countries was increasing at an average rate of $90,000 million a year, the aggregate volume of financing supplied to developing countries had barely increased by $200 million a year between 1961 and 1965. The terms on which aid was provided had continued to deteriorate. The total share of grants in official disbursement had continued to decline. As a result, the indebtedness of developing countries had reached a record figure and the over-all debt-service ratio had more than doubled since 1950, having risen from 4 per cent to approximately 9 per cent. During the same period, annual interest and amortization payments had increased by 400 per cent. That decrease in the net inflow of resources had caused a deterioration in the international liquidity position of the developing countries and they were becoming less and less able to effect short-term adjustments to correct balance-of-payments deficits.

24. The Brazilian Government was convinced that there was no adequate substitute for external financing. Many delegations from developed countries had stressed the need for the mobilization of the internal resources of developing countries. He did not think that it was the Committee's task to study that aspect of the question, which had been dealt with in other forums, particularly in UNCTAD. In that connexion, it should be stressed that not only had the capital absorptive capacity of developing countries considerably increased, but that those countries had also taken appropriate measures to encourage a greater inflow of foreign capital.

25. Those problems had been analysed by UNCTAD, the Economic and Social Council and other international bodies. The Committee therefore had clear-cut guide-lines in the matter and his delegation saw no need for a new set of measures at that stage. On the contrary, emphasis should now be laid on implementation of the decisions already taken. In particular, steps were needed to prevent the slowing down, owing to lack of funds, of the activities of bodies such as IDA which specialized in soft loans, to reverse the trend towards the hardening of terms and conditions of aid, and to continue the study of those questions, including those covered in the progress report of the Secretary-General (E/4374), with a view to completing the analysis of the outflow of resources from developing countries and devising further measures for its limitation.

26. The establishment of the United Nations Capital Development Fund resulted from the philosophy of international co-operation that had inspired the United Nations Development Decade. It reflected the acknowledgement by the international community of the need to bear a larger share of the cost of developing the poor areas of the globe and thus of improving the lot of two thirds of mankind. The Brazilian delegation supported the appeal which the representative of India had made to the developing countries to approach the question of the United Nations Capital Development Fund in a spirit of understanding and goodwill.

27. Mr. LOPEZ (Philippines) said that United Nations organs had been dealing with the problem of financing the economic development of the developing countries since 1950. The representatives of the Philippines had often had occasion in various bodies to refer to the failure of the United Nations Development Decade. At the present time, however, the main task was to find effective remedies for the economic difficulties of the developing countries.

28. So far as the developed countries were concerned, the problem of increasing the flow of development financing lay mainly in balance-of-payments difficulties and budgetary constraints. The report of the Secretary-General (E/4375) deserved serious consideration in that respect. It suggested measures which the developed countries might take to insulate the flow of capital to developing countries from their balance-of-payments difficulties and the possibility of the latter countries being exempted from restrictive policies. Norway had set an example in that connexion, having decided to levy a tax of one quarter of 1 per cent on personal income for the purpose of development aid.

29. The problems of the developing countries were chiefly due to short repayment periods, high interest rates and the increasing burden of debt-servicing. Moreover, grants made to them were often tied to imports of specific products at fixed prices, thus tending to reduce the actual value of the assistance. The removal of some of those obstacles would make possible a decrease in the reverse flow of capital from the developing to the developed countries.

30. His delegation attached particular importance to the need for measures to promote private foreign investment, export credit and development financing, as well as tax reform.

31. With regard to private foreign investment, it was clearly the responsibility of the developing countries to provide an attractive climate for such investment. The Philippines had just adopted an Investment Incentives Law, under which investors and enterprises would be granted a number of advantages, relating to such matters as profits, the protection of patents, and taxation. The problem was, however, complicated, because the developing countries had to attract foreign capital and at the same time to defend their economic independence. Those countries could usefully exchange information on the steps which they had taken to resolve that dilemma. In that connexion, the Philippine delegation supported the proposal made by the Secretary-General in his note (E/4293/Add.2) to convoke a representative panel of officials from Governments and international agencies and of leaders in the investment sector to discuss the problem.

32. Where export credit and development financing were concerned, it would be advisable to examine the question of export credit interest rates and the possibility of establishing a method of financing imports of capital goods by developing countries.

33. Finally, the Philippine delegation would welcome country studies to determine the required tax improvements with a view to the institution of tax reform programmes.

## AGENDA ITEM 39

### United Nations Industrial Development Organization: report of the Industrial Development Board (continued)* (A/6703 and Corr.1, chap. IX; A/6715/Rev.1, A/6800, A/6808, A/C.2/L.959)

34. Mr. SAHLOUL (Sudan), introducing draft resolution A/C.2/L.959 on behalf of the sponsors, said that that proposal was designed to give the United Nations Industrial Development Organization (UNIDO) the autonomy provided for in General Assembly resolution 2152 (XXI). It would be recalled that that resolution represented a compromise between the views of the developing countries, which had been in favour of establishing a specialized agency for industrial development, and those of the countries which had opposed such a step. It was essential that UNIDO should be able to conduct its activities independently on the same footing as the other specialized agencies and, to that end, it must be granted the funds it needed in a separate section of the United Nations budget for the programme of technical assistance in industrial development. Draft resolution A/C.2/L.959 accordingly proposed that such a section should be established in part V of the budget.

35. The delegation of Sudan also believed that UNIDO would not enjoy complete autonomy until the Industrial Development Board had been given powers to provide general policy guidance and direction with regard to the resources appropriated for industrial development. It therefore hoped that the Committee would adopt the draft resolution immediately.

36. Mr. WILMOT (Ghana) and Mr. TOURE (Guinea) said that they supported the draft resolution.

37. Mr. LOBANOV (Union of Soviet Socialist Republics) said that although his delegation was opposed in principle to the cost of operational activities being borne by the United Nations regular budget, in view of the importance of UNIDO's activities, it was prepared to make an exception.

38. It wished, however, to make a few reservations. It interpreted the text of operative paragraph 1 of draft resolution A/C.2/L.959 to mean that the establishment of a separate section in the budget for technical assistance in industrial development involved no increase in the appropriations under part V. It would thus be merely a question of reallocating the available funds. In that paragraph, the words "at an appropriate level commensurate with the expanding requirements of the developing countries" should be replaced by the words "at the present level".

39. The Soviet delegation also thought that the words "including contributions in national currencies" should be inserted after the words "resources thus appropriated" in operative paragraph 3 in view of the need to employ sums included in part V that were not utilized.

40. Subject to those reservations, the Soviet delegation found the draft resolution satisfactory.

41. Mr. NEDIVI (Israel) said that, in the opinion of his delegation, the draft resolution should chiefly be regarded as a step towards establishing a separate section of the United Nations budget exclusively for economic and social activities. From that standpoint, it was a useful proposal.

42. His delegation did not, however, approve of operative paragraphs 2 and 3, because they prematurely repudiated the application of the provisions of operative paragraph 4 of General Assembly resolution 2029 (XX) on the establishment of the United Nations Development Programme, and provided for decentralization with respect to disbursement of assistance funds with a complete disregard of total needs.

43. Mr. VIAUD (France) asked the Chairman whether he had made arrangements for consultations on the matter between the Second Committee and the other relevant bodies, particularly the Fifth Committee.

44. The CHAIRMAN said that such arrangements had been made and that consultations were already in progress.

*The meeting rose at 12.50 p.m.*

*Resumed from the 1122nd meeting.

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