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CONTENTS

Chairman: Mr. Moraiwid M. TELL (Jordan).

AGENDA ITEM 37

United Nations Conference on Trade and Development: report of the Trade and Development Board (A/6303/Add.1, chap. I; A/6315, A/6501)

1. Mr. PREBISCH (Secretary-General of the United Nations Conference on Trade and Development), presenting the report of the Trade and Development Board (A/6315), said that he did not intend to comment on the contents of the report itself but on the basic conclusion to be drawn from it, namely, that halfway through the United Nations Development Decade it was clear that the target set for the Decade, although modest, could not be attained. The main reason was that the effects of the technological evolution of the past thirty years had been so intense and so rapid that it had not yet been possible to evaluate their full impact. Consequently, it had been impossible to forge the isolated international and local measures into a coherent development policy based on adequate international co-operation. He hoped that the international community would learn from that experience and so avoid a further setback in the future which might have disastrous consequences.

2. With regard to trade and finance, for twenty years no sweeping measures had been taken to offset the impact of technological advances on the exports of the developing countries, either in respect of primary commodities, the markets for which were sometimes, as in the extreme case of sugar, restricted by protective measures, or in respect of manufactures, against which restrictive measures had been taken as soon as a market, for example that of textiles, seemed to be opening up for the developing countries. The only measures taken had been those adopted in favour of certain developing countries at the expense of others, and even those partial measures had been made conditional on reciprocity, although the principle of non-reciprocity had been clearly enunciated at the first session of the United Nations Conference on Trade and Development (UNCTAD). The Canadian Minister of Finance had recently stressed that the establishment of more clearly defined and antagonistic spheres of influence resulting from anarchic preferential arrangements between former metropolitan Powers and their former colonial territories, would have dangerous implications for international relationships. In the matter of finance, the transfer of resources from the developed to the developing countries was on the wane, while the burden of servicing the debts owed by the latter to the former was steadily mounting.

3. While the developed countries were responsible for the foregoing, it must be recognized that the developing countries, on their side, had not made the necessary effort to frame a policy compatible with the progress of modern technology. They had not yet understood sufficiently that they could not benefit from technological progress except by radically reforming their economic and social structures. The inability to produce enough food, which was assuming catastrophic proportions, was, for example, usually associated with anachronistic systems of land tenure. Those outdated structures also affected industrial development which it was often attempted to promote in water-tight compartments. That was a problem which the developing countries could solve themselves, if they took sufficiently bold action to facilitate trade among themselves, for the only way of ensuring their industrialization in viable conditions was through the economic integration of groups of developing countries. It was also the responsibility of those countries to mobilize their own resources and, although they had made some efforts in that direction, they still had a long way to go.

4. The responsibilities were therefore divided between the developed and the developing countries. The time had come to end recriminations and to consider what steps were to be taken by both sides to formulate a coherent and effective policy of development and international co-operation. The target of an annual growth-rate of 5 per cent in the national income of the developing countries was not too high although, because of the impossibility of reaching it, it was generally believed to be so. It was not high enough. Moreover, the major industrialized countries were beginning to recognize that fact, for President Johnson had recently stated, on the occasion of the anniversary of the Alliance for Progress, that Latin America could, in his opinion, reach a per capita growth rate of from 4 to 6 per cent per annum, whereas the rate

postulated by the Alliance had been 2.5 per cent. Such a rate of progress was not Utopian, but it could not be achieved unless there was concerted action by both the developed and the developing countries.

5. The organs of the United Nations must, therefore, strive to provide Governments with all the material they need to formulate and adopt the required policy. The second session of UNCTAD would doubtless be of help, since its agenda provided for a discussion of matters of very great importance in that connexion, such as access to markets and the granting of preferences to encourage exports of manufactures by the developing countries. The idea of preferences was, moreover, beginning to gain ground and to be accepted as an integral part of a world policy for the liberalization of trade. Such a policy, adopted after the Second World War among the developed countries, had produced excellent results and the Kennedy Round might certainly help to liberalize trade between developed and developing countries. However, much ground remained to be covered before preferences were established which would be equivalent to the duty-free entry of manufactures from the developing into the developed countries and which would make a positive contribution to the liberalization of trade, on the understanding, of course, that the developing countries, for their part, would have to take steps to facilitate imports from other developing countries. The solution of the trade gap problem called not only for an increase in the exports of the latter to the developed countries, but also for an intensification of trade among themselves. That meant that the means of payment among the developing countries must be studied.

6. When the developing countries had strengthened their industries, through regional and sub-regional economic integration, their higher productivity would enable them to export more manufactures to the developed countries and they would, at the same time, be able—and that would be a new stage in world trade policy—to lower their customs tariffs on goods from the developed countries. That stage was indispensable to prevent regional integration agreements from becoming, so to speak, monopolistic and possibly hampering international competition. Such competition was essential for the spread of technology and the formulation of a world trade policy.

7. The data available clearly showed that a reasonable growth-rate, such as President Johnson had mentioned, could only be achieved by substantially increasing the transfer of resources from the developed to the developing countries. But it was also obvious that such an increase would be possible only if the latter undertook to use those external resources to implement a coherent economic and social policy. The question arose whether it should be left to the aid-giving States to determine that policy. One of the advantages of the formulation of an international policy by international bodies would be that it would enable a plan of concerted action to be drawn up by all the countries concerned working together to help the developing countries. The President of the International Bank for Reconstruction and Development, Mr. George D. Woods, had recently stressed that a distinction should be drawn between financing provided by the developed countries to promote their own exports to the developing countries or to help the latter for political or military purposes and financing provided solely for the purpose of enhancing the productivity of the developing countries. Financing of the latter type, Mr. Woods had stated, should be effected through international multilateral organizations. However, the formulation of a specific international plan raised problems which would be difficult to solve if only, for example, because of the important role that the private sector must play in the financing of development.

8. Nevertheless, the international agencies today had sufficient experience to be able to quantify to some extent the targets to be achieved and the means for doing so. It was necessary above all to evaluate the amount of resources needed by the developing countries to pay for their essential imports and the over-all calculations so far made should now be broken down nationally and regionally. The magnitude of the problem and past and future phenomena should be evaluated. Apart from the very useful work done by the United Nations Centre for Development Planning, Projections and Policies and the much more modest work done by UNCTAD, FAO had undertaken to make projections of the food requirements of the developing countries as a whole in twenty years. Those calculations would be extremely useful because, in order to meet the demand for food, not only must food production in all the developing countries be expanded but their imports of food-stuffs from the developed countries must also be facilitated. This would be a reversal of the usual idea that raw materials always came from developing countries and would further add to their foreign trade deficit. What was immediately required therefore was not over-all projections but projections by countries so that the necessary measures could be taken before it was too late. Only the international institutions could undertake studies of that kind and the United Nations had an enormous role to play in that regard.

9. In the circumstances and in conclusion, he warned against the dangerous proliferation of meetings which was likely to hamper the work of the United Nations. The number of meetings must be kept at an optimum level so that the Secretariat could make the proper preparations for them and Governments could participate in them usefully. Nevertheless, although the Secretariat and all Governments shared that view, the number of meetings—in UNCTAD at any rate—was constantly rising to the point where its meetings in 1967 would absorb almost 60 per cent of its budget. A large part of those resources could be more wisely used for preparing studies in depth and for meetings of small groups of experts and seminars. That disturbing situation could be easily corrected if there was the necessary political will.

10. The CHAIRMAN, speaking on behalf of the Committee, thanked the Secretary-General of UNCTAD for his interesting statement.

11. Mr. KAUL (India) proposed that Mr. Prebisch's statement should be issued as a Committee document.

It was so decided. [1]

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[1] The complete text of the statement made by the Secretary-General of UNCTAD was subsequently circulated as document A/C.2/L.908.

AGENDA ITEMS 38, 40 AND 42

Establishment of a United Nations capital development fund: report of the Committee on a United Nations Capital Development Fund (continued) (A/6303/Add.1, chap. II; A/6418, A/6459)

Accelerated flow of capital and technical assistance to the developing countries: report of the Secretary-General (continued) (A/6303, chap. V, sect. I; A/6461, E/4170 and Add.1 and 2 and Add.2/Corr.1, E/4171 and Corr.1, E/4189 and Corr.1 and 2, E/4240, A/C.2/L.898 and Add.1 and Add.2/Corr.1, A/C.2/L.905 and Add.1 and 2, A/C.2/L.906)

Inflation and economic development: report of the Secretary-General (continued) (A/6303, chap. III, sect. I and chap. XVI, sect. VIII; A/6424, E/4152 and Corr.1)

12. Mr. HUSSEIN (United Arab Republic), recalling the position taken by his delegation in the general statements on the items under consideration (1028th meeting), said that it was only logical that his country should be a sponsor of draft resolutions A/C.2/L.898 and A/C.2/L.905. The draft resolution on the accelerated flow of capital required no comment, as the substance of the matter had been debated at length in the Economic and Social Council, and it was particularly important that external resources should be made available to the developing countries on more liberal terms. The provisions of the draft resolution should not be confined to Council documents; they should also have the sanction of the General Assembly.

13. The problems connected with the accelerated flow of capital related especially to the outflow of capital, sometimes called the reverse flow of capital. The United Arab Republic had had to cope with that problem and he well understood that the developing countries were becoming increasingly concerned with that particular aspect. It should therefore be included as a separate sub-item on the Committee's agenda. The representative of Peru had rightly pointed out that Governments were responsible for the outflow of capital from their own countries. Nevertheless, the control of the outflow of official capital in the form of debt servicing depended on international co-operation, which was the aim of the draft resolution.

14. Inflation was a concomitant of economic development, particularly in the developing countries, and each country must deal with the resultant problems in the manner best suited to its economic policy. The item should be dropped from the Committee's agenda and left to the Council.

15. The United Arab Republic, whose position had not changed since the adoption of General Assembly resolution 1521 (XV), considered that another debate between those in favour and those against the establishment of a United Nations capital development fund would be inadvisable. The time had come to put theory into practice. He reserved the right to return to the subject when a draft resolution was submitted, but his delegation would certainly support any text proposing early establishment of the fund.

16. Mr. KOMIVES (Hungary) said that inflation was harmful to the developing countries in particular, since it hampered the economic advancement which they so badly needed. Its inclusion as an item on the Committee's agenda was therefore timely and the discussion on it and the Secretary-General's report were both useful. It was true, as the Secretary-General had stated in his report (E/4152 and Corr.1), that inflationary pressures and counter-measures differed considerably from country to country. Nevertheless, a more thorough study should be made of the inflationary effects of price increases in the developed market economy countries and the deterioration in the terms of trade. His delegation supported the Secretary-General's proposal that, in the future, inflation and economic development should be considered in the context of part II of the World Economic Survey (A/6424, para.4)

17. There was little to add to what had been said already concerning the accelerated flow of capital and technical assistance to the developing countries. However, the present situation called for a thorough analysis and for appropriate action based on the findings of that analysis in order to decrease the drain of capital from the developing countries. The final report of the group of experts on the measurement of the flow of assistance and long-term capital should deal also with the outflow of capital from the developing countries and it should contain recommendations on measures to be adopted. For that reason he fully supported draft resolution A/C.2/L.898.

18. His Government, like those of the great majority of Member States, had always favoured the establishment of a United Nations capital development fund. The fund should be open to all States wishing to contribute to and participate in its work. The best way to establish it would be by the gradual transformation of the Special Fund component of the United Nations Development Programme (UNDP).

Mr. Boiko (Ukrainian Soviet Socialist Republic), Vice-Chairman, took the Chair.

19. Mr. MARTIN WITKOWSKI (France) said that his delegation, which had supported Economic and Social Council resolution 1183 (XLI), would vote for draft resolution A/C.2/L.905. Draft resolution A/C.2/L.898 dealt with an important problem and the sponsors had rightly wished to facilitate its solution. Nevertheless, in its present form, it was open to criticism. While it was true that the debt-servicing burden of the developing countries had grown heavier, there was no proof that the outflow of capital from those countries was tending to increase and, to say that it was, prejudged the results of the study requested of the Secretary-General in Council resolution 1184 (XLI).

20. After suggesting that the third preambular paragraph of draft resolution A/C.2/L.898 should be amended to bring it into line with the wording of the seventeenth preambular paragraph of Council resolution 1183 (XLI), he said that his delegation had not had an opportunity to check the accuracy of the opinion expressed by the President of IBRD and was unable to endorse it. Operative paragraph 2 treated all outflows of capital alike and suggested that the systematic limitation of outflows of capital, which would only discourage further investment, was an end in itself. The suggestion was untenable and unwise, for it was dangerous to give credence to the idea that that was a desirable way of accelerating economic

development. Furthermore, it would be premature to request the Secretary-General to submit recommendations when the study called for in Council resolution 1184 (XLI) had not yet been made. He suggested the following text to replace operative paragraph 2:

"Requests the Secretary-General to supplement the work specified in sub-paragraph (a) of the abovementioned resolution 1184 (XLI) by an analysis of the various techniques whereby Governments can, if appropriate, exercise supervision or control over outflows of capital and to report through the Economic and Social Council, to the General Assembly at its twenty-second session."

The Secretary-General would thus be able to broaden the terms of reference of the Group of Experts who would be required to study the facts and not to make recommendations.

21. Mr. PLAN (Austria) said that an increase in productive investment was one of the conditions for the economic growth of the developing countries, since the rate of growth of production was at least partially dependent on the rate of capital formation. The determining factors were not only the volume but also the composition and form of such investment. During a period of either open or controlled inflation, money lost its function as an accumulator of value, and as the race for liquidity became more intense, money and those financial assets which were expressed in terms of money became increasingly less acceptable. Such a situation was characterized by speculation, the hoarding of goods, gold and foreign currency, and a preference for non-monetary assets. In many countries, the population had had first-hand experience with inflation in all its phases and reacted accordingly.

22. It was impossible to carry out an investment programme based on the optimum allocation of resources in an inflationary climate, in which economic and financial relations were distorted, in which the volume of resources that could be used for productive investment decreased and in which a large percentage of the dwindling savings was directed towards foreign assets. In times of inflation and political uncertainty, the flight of private capital was particularly great in the developing countries; as was urged in draft resolution A/C.2/L.898—which his delegation supported—special attention should be given to that phenomenon, which should continue to be of primary concern to the Committee and other United Nations bodies. Governments which were seriously trying to combat inflation should be given all possible moral and financial support, both bilateral and multilateral. No country could look forward to healthy and sustained economic expansion until it surmounted the disastrous effects of inflation; Austria knew that from its own experience after the Second World War.

23. Because of the low income of their populations, many of the developing countries were finding it difficult to increase their internal savings and found themselves compelled to import foreign capital, both public and private, and in that way to obtain foreign currency, the lack of which was hampering their economic development. It was therefore of the utmost importance for the developed countries to do everything possible to promote and accelerate the flow of public and private capital to the developing countries; the latter, for their part, could facilitate that process by adopting economic and financial policies aimed at preventing or curbing inflation and by creating a favourable climate for private foreign capital.

24. With those considerations in mind, his delegation would vote for draft resolution A/C.2/L.905, since it endorsed the latter's objectives, and felt that the developed countries should endeavour to achieve them as soon as possible. Some of those countries, owing to their strong economic and financial position, would soon be able to reach and surpass the goal of 1 per cent, while others would take longer. It generally agreed that the conditions for development assistance should be as generous as possible, so as not to increase unduly the debt-servicing burden of the developing countries. Those countries could be charged a maximum interest rate of 3 per cent, which might be considered high in times when money was plentiful but was fairly low in the present period of monetary and financial contraction.

25. He recalled that in 1965 his country's financial assistance to the developing countries had amounted to almost $50 million, which was nearly twice as much as it had been in 1964. His Government would continue to do everything possible to promote the flow of capital to the developing countries.

Mr. Tell (Jordan) resumed the Chair.

26. Mr. ABE (Japan) said that he would like to make a few comments on the two draft resolutions relating to item 40 and reserved the right to return subsequently to item 38.

27. With respect to operative paragraph 3 (b) (ii) of Economic and Social Council resolution 1183 (XLI), which was to be endorsed by draft resolution A/C.2/L.905, he observed that drastic liberalization of terms might force the donor country to reduce the volume of its aid in order to counterbalance the burden on its budget and balance of payments. That was the situation confronting his country, with high interest rates prevailing in the domestic capital market, limited budgetary resources because of the country's low per capita income, and its still precarious balance-of-payments position. His Government was therefore unable, at the present time, to make any formal commitment to meet the indicated goal within the recommended time-limit, although it was resolved to do everything possible to ease the terms on which it provided assistance. As far as operative paragraph 5 (b) (ii) of the Council resolution was concerned, he wished to reiterate his delegation's basic position, namely, that the United Nations should not serve as a forum for confrontations between the developed and the under-developed countries and for screening the achievements of each country with regard to some particular recommendation; his delegation therefore had serious reservations about the purpose of the study which the Secretary-General was being asked to carry out in paragraph 5, and it reserved its position on that point. Moreover, in spite of all its efforts, his Government was not in a position to commit itself to attaining the goal referred to in paragraph 3 (a) within a specific period.

28. With regard to the substance of the resolution under discussion, he thought that much of the recom-

mendation contained in paragraph 3 and the studies called for in paragraph 5 were of such a nature that it would have been better, in order to avoid duplication and confusion, to deal with the matter in the UNCTAD Committee on Invisibles and Financing related to Trade and then bring it before the Economic and Social Council through the Trade and Development Board. From a drafting standpoint, it seemed strange that the text of the relevant resolution of the Economic and Social Council should have been reproduced in full, whereas the actual operative part amounted to two short paragraphs. He recalled that the Ad Hoc Committee of Experts to Examine the Finances of the United Nations and the Specialized Agencies had recommended that documentation should be as brief and economical as possible; perhaps, therefore, the sponsors should rearrange their preambular paragraphs in the way suggested by the representative of Jordan (1075th meeting).

29. With regard to draft resolution A/C.2/L.898, it was obvious that a study of "reverse flows" would make it possible to obtain a clearer idea of the problems involved in the movement of capital between the developed and the developing countries. It should be noted, however, that at present the available data on reverse flows were notoriously inadequate and that the coverage and accuracy of those data would have to be improved before a useful analysis could be undertaken. The Secretariat was surely aware of that fact, and he was confident that it would not attempt, under operative paragraph 2 of the draft resolution, to draw up a hasty recommendation based on inadequate data.

30. Mr. KADLEC (Czechoslovakia) pointed out that there were inevitably differences in approach to the problem of assistance to the developing countries because of the different socio-economic systems of the donor countries. His Government, for its part, believed that by adapting their economies to the requirements of the international division of labour, the developing countries could help to ensure their economic independence and accelerate their economic progress; in other words, it was essential for them to correct the imbalances which their economies had inherited from the former colonial Powers. Czechoslovakia was taking that need into account in its own economic policy. In spite of its limited surplus resources, it was affording the developing countries bilateral and multilateral assistance which was far from negligible and was doing so on terms which were fully in conformity with the recommendations contained in the Final Act of UNCTAD.[2] On the other hand, many countries which boasted of their generous assistance to the developing countries recovered much of that assistance in the form of profits. That was where the additional resources for financing the economic growth of the developing countries were to be found. His delegation was glad, therefore, that draft resolution A/C.2/L.898 requested the Secretary-General to submit a report containing recommendations on possible measures to be taken in order to limit or decrease the outflow of capital from the developing to the developed countries.

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

31. In his opinion, draft resolution A/C.2/L.905 did not take sufficient account of the different attitudes and methods adopted in granting assistance to the developing countries, and particularly of the differences in that respect between the socialist countries and the other developed countries. The indicated goals obviously applied to countries whose traditions and socio-economic systems differed from those of Czechoslovakia; the discussions in the Economic and Social Council had consisted mainly of a dialogue between the developing countries and the advanced countries with market economies. His delegation had been obliged to abstain in the vote in the Council, because it had been unable to accept obligations which were contrary to the principles governing its economy; if the draft now under discussion was put to the vote, it would have to adopt the same course.

32. With regard to the establishment of a United Nations capital development fund, his Government had supported the idea since 1955. In spite of the merger of the Expanded Programme of Technical Assistance and the Special Fund, it was still convinced that the best way to set up that body was to transform the Special Fund component of the UNDP into a capital development fund. With that in mind, his delegation had joined with that of the USSR in submitting amendments to the draft statute for the capital development fund which was to be established through the gradual transformation of UNDP.[3] In the meantime, he felt that the scope of UNDP should be broadened to include investment activities, since that would be a more profitable procedure than to continue fruitless negotiations on a United Nations capital development fund. The United Nations Development Programme could undertake a number of pilot projects in the industrial field, in co-operation with UNIDO, without requiring additional resources. On the basis of the experience gradually acquired in that way, it would be possible to compare the effectiveness of investment activities in the proper sense and of pre-investment activities and possibly to plan a better distribution of resources. His delegation was prepared to consider any proposal for establishing a United Nations capital development fund along those lines which took account of the amendments proposed by his country and the USSR to the draft statute of the fund.

33. Mr. Donald MACDONALD (Canada) said that during the past year, following decisions by the Economic and Social Council, UNCTAD and other interested bodies, the vital problem of increasing the flow of international resources for economic and social development had been given intensive study with a view to better adjusting its volume to the needs and capacity of the recipient countries on terms which would allow them to derive maximum benefit from it. The Committee should bear that fact in mind, and its draft resolution should indicate the need for co-operation and shared responsibility between the developed and the developing countries in encouraging economic growth.

34. He recalled that his delegation had voted for Economic and Social Council resolution 1183 (XLI) because it had felt that the resolution suitably expressed the concern felt by a majority of countries and emphasized the need to increase the flow of development resources on easier terms. Nevertheless,

[3] See A/AC.102/SR.38.

since it was almost exclusively a reflection of the preoccupations of the developing countries, Council resolution 1183 (XLI) did not give a balanced picture. For that reason, his delegation had reservations to express on certain provisions, just as it had done in the Economic and Social Council. It supported operative paragraph 3 (a) of the Council resolution urging the developed countries to reach and, if possible, to surpass the target of 1 per cent by the end of the United Nations Development Decade and attached particular importance to the qualifying phrase in that paragraph: "... having regard, however, to the special position of some countries which are net importers of capital".

35. That was precisely the case with his country, which had, however, expanded its aid programme at the rate of $50 million a year and hoped to continue to do so, if circumstances permitted, until it reached the target of 1 per cent. His delegation's reservations therefore concerned not the target itself but the usefulness of the study of economic factors which the Secretary-General was requested to undertake in operative paragraph 5 (b) (i). It was doubtful whether the study could help significantly to solve the problem of increasing the volume of aid in view of the political nature of that problem. It was hardly possible to reduce the many varied factors affecting donor countries to a single standard that could be used to assess the burden which aid represented for those countries.

36. Although his delegation endorsed operative paragraph 3 (b) (ii), it had misgivings with regard to the terms set out for the granting of aid in the Council's resolution. During 1965, the percentage of aid which his country had provided on those or even more favourable terms had risen from 63 to 76 per cent, almost reaching the target of 80 per cent, and most Government loans were now granted without interest or service charges, with a fifty-year maturity and a ten-year grace period. That part of the resolution thus ignored those countries which had already exceeded the targets, and it might give the unfortunate impression that the conditions set out in that paragraph were applicable to all the developing countries.

37. The question of tied aid had not been dealt with very realistically. It was true that such aid limited the recipient country's freedom of choice, and his Government had significantly altered its practices in that regard. It must, however, be recognized that tied aid would exist for a long time to come, and mutually acceptable solutions should be sought. The creation of any advisory service within the United Nations was not such a solution. The consultative groups and consortia of donor countries already provided effective co-ordinating machinery, and their operation could be improved further with a view to solving some of the problems which had been referred to. At the same time, it was the responsibility of the recipient countries to use exclusively for high-priority projects the credits made available to them. His delegation would not, however, be opposed to studying the feasibility of setting up an advisory service of the kind indicated.

38. His delegation felt that the recommendation in operative paragraph 3 (b) (vii) of the Council resolution concerning the repayment of loans in the form of goods "where such arrangements exist or are practicable" was a reflection of the increasing difficulty encountered by the developing countries in obtaining foreign exchange. His country, which had a market economy, could not undertake the State trading operations which that recommendation implied.

39. He reiterated his delegation's reservations on all the points on which it had abstained in the vote on Economic and Social Council resolution 1183 (XLI), and particularly on operative paragraph 2 of that resolution. His delegation could not accept the injunction to meet the objectives set out in the recommendations of UNCTAD, since the A.IV series of the recommendations in the Final Act of UNCTAD contained a number of proposals which Canada had been unable to support.

40. His delegation did not feel that Council resolution 1183 (XLI) was balanced in nature, despite its valuable elements, since it stressed almost exclusively the responsibilities of the developed countries. The Committee should also endorse resolution 30 (IV) on development financing adopted at the fourth session of the Trade and Development Board. He suggested that, instead of reproducing them fully in the body of the draft resolution, the text of the Council resolution and that of Trade and Development Board resolution 30 (IV) should be attached as an annex to draft resolution A/C.2/L.905, and that operative paragraph 1 should be amended to read:

> "Welcomes Economic and Social Council resolution 1183 (XLI) and Trade and Development Board resolution 30 (IV), annexed to this resolution."

If that was done, the draft resolution would afford a broader view of the decisions taken in that field during the year and of the joint action required in future.

41. He reserved the right to speak later on the question of the establishment of a United Nations capital development fund.

42. Mr. LOUYA (Democratic Republic of the Congo) said that the flow of capital to the developing countries had shown a tendency to decline since 1965. At the same time, there had been a marked increase in the outflow of capital from the developing to the developed countries. His delegation felt that a basic, lasting solution must be found to that difficult problem. While it was aware that action to promote economic development must be primarily domestic, his delegation recognized that the contribution of foreign capital was an essential factor. It regretted, in that connexion, that it had not yet been possible to attain the goal of 1 per cent of the national incomes of the economically advanced countries which was fixed in General Assembly resolution 1522 (XV).

43. Apart from that quantitative goal, his delegation was concerned at the quality of the capital flow, some of which seemed designed more to bolster the economy of the donor countries than to increase the productive capacity of the recipient countries. He therefore hoped that the countries which published their balance-of-payments would improve the detailed presentation so as to permit assessment of the quality of the flow.

44. His delegation also felt that bilateral aid should be increasingly granted under the auspices of a multilateral body, and it therefore supported the idea of transforming the Special Fund element of UNDP into a United Nations capital development fund. In view of

the satisfactory results so far achieved by UNDP in the field of pre-investment, it was reasonable to suggest that that body should henceforth also deal with direct investment, which, from a strategic standpoint, was the most important sector for the development of the under-developed countries. The essential point, however, was that the industrialized countries should be prepared as a matter of policy to make further contributions to UNDP which would permit it to finance investment projects without impairing its pre-investment activities.

45. His delegation saw no reason to withhold support from draft resolution A/C.2/L.905, which was aimed at reducing the outflow of capital from the developing countries. It would have no difficulty in supporting draft resolution A/C.2/L.898, provided that improvements were made in the wording of the third preambular paragraph and operative paragraph 2.

46. Mr. AMMAR (Tunisia) pointed out that despite the appreciable efforts of most of the developing countries to reform their economic structures and make more effective use of capital, the objectives of the United Nations Development Decade with regard to financial and technical assistance to those countries had not been achieved. On the contrary, the flows of capital and technical assistance were slowing down.

47. Those were the considerations underlying draft resolution A/C.2/L.905, of which his delegation was a co-sponsor and which reproduced Economic and Social Council resolution 1183 (XLI). In the latter resolution it was recalled that the basic problem was not the capital absorption capacity of the developing countries but the shortage of capital for development purposes. The resolution also acknowledged the efforts of the developed countries in development financing, efforts which his country duly appreciated and from which it benefited under bilateral agreements with countries having different economic systems and, in the case of multilateral aid, through UNDP, IBRD and the International Development Association. Nevertheless, such aid was still inadequate and poorly adapted to the needs of the beneficiary countries and sometimes involved such complicated procedures as to render it unusable. To avail themselves of certain loans, the developing countries were often required to purchase commodities at prices well above the market, and that made the loans less advantageous than the fairly low rates of interest and the comparatively long repayment periods would indicate. His country had endeavoured to devise, with the help of its partners, more flexible solutions better adapted to its needs, and although much remained to be done it ought to be possible, if all parties showed goodwill and if the suggestions contained in the Council resolution were followed, to achieve the objectives of the Development Decade and accelerate the economic and social development of the countries of the Third World.

48. With regard to form, the sponsors of draft resolution A/C.2/L.905 could admittedly have been content with a very short text which merely mentioned resolution 1183 (XLI), but they had considered the latter so important that they had thought it worthwhile to reproduce the text in full. That was why they were unable to accept the Jordanian amendments.

49. The disturbing situation created by the growing burden of servicing loans was further aggravated by the fact that some countries were having recourse to export loans or suppliers' loans in order to finance their development projects. While the policy of combining public loans and suppliers' loans could, in certain cases, serve the immediate interests both of the industrialized countries which were exporters of capital goods and of the developing countries, what the latter needed most at the present stage was nevertheless long-term, low-interest loans. It was because of its concern about the increased debt-servicing burden and the outflow of capital that his delegation had also co-sponsored draft resolution A/C.2/L.898, which endorsed Economic and Social Council resolution 1184 (XLI) and requested the Secretary-General to submit recommendations on possible measures to be taken to decrease the outflow of capital from the developing to the developed countries.

50. He regretted that the United Nations did not yet have a capital development fund, despite General Assembly resolution 1521 (XV) and despite various debates and reports on that subject. It had not even been possible to win acceptance for the compromise solution whereby the pre-investment activities of UNDP would be progressively converted into investment activities. The existing international finance institutions had neither the resources nor the structures necessary for meeting more adequately the needs of the developing countries. For that reason his delegation would support the proposal to establish a United Nations capital development fund, even if that fund had very limited resources at the outset. The capital development fund could receive contributions from all who supported the principle of multilateral financial aid, provided concurrently with bilateral aid, in order to meet the extensive needs of the developing countries.

51. Mr. GALLARDO MORENO (Mexico) supported draft resolution A/C.2/L.905. He thanked the representative of Panama for agreeing (1077th meeting) to allow the discussion of his interesting draft resolution (A/C.2/L.902), which required close study, to be postponed to the next meeting. As for draft resolution A/C.2/L.898, the Mexican delegation could see nothing constructive in operative paragraphs 2 and 3 (b); it was opposed to those paragraphs and requested a separate vote on them. If by the "outflow of capital from the developing... countries" the sponsors meant the problems of profits on foreign investment, debt servicing, technical assistance and capital goods purchases, the question was amply dealt with in draft resolution A/C.2/L.905, which also suggested some solutions. If, on the other hand, they were referring to the consequence of domestic situations, that was a problem for each country to deal with, and his delegation could not agree that the Secretary-General should be asked to make recommendations on the subject.

52. As for inflation, with which more or less all countries were familiar, that problem was further complicated by the interdependence of all countries and by the fact that it obeyed the law of communicating vessels. Most countries had practised a policy of moderate inflation for the sake of development. At some sacrifice, Mexico had achieved reasonable price

stability and established a free exchange system over ten years ago. Action must be taken to check the tragic depreciation of currencies and the deterioration of terms of trade.

53. His delegation doubted the advisability of appropriating large sums of money for the creation of a United Nations capital development fund which the developed countries refused to support, an attitude which seemed unlikely to change for the present. Attempts could perhaps be made to modify it in the future, by demonstrating that there were urgent high priority programmes ignored by the existing international and regional bodies.

54. Mr. CHAMMAS (Lebanon) said that the primary concern of the developing countries was the net volume of capital inflow. Draft resolution A/C.2/L.898 had the merit of tackling the problem of the movement of capital from the developing to the developed countries. However, several delegations had objected to the use in operative paragraph 2 of the word "recommendations"; his delegation hoped therefore that the sponsors would consider deleting the words "containing recommendations" in that paragraph. The movement of capital referred to was not necessarily harmful; where the outflow represented the repayment of loans granted on favourable terms, it testified to the solvency of the recipient countries and hence encouraged further investment. The amendment proposed by the French representative did not seem to correspond exactly to the aims of the sponsors, who really wanted the Secretary-General to consider the measures to be taken in order to limit or decrease outflows of capital which were detrimental to development. He therefore proposed that the phrase "Whenever such an outflow becomes harmful to the development objectives of the developing countries;" should be added at the end of paragraph 2.

55. His delegation would support draft resolution A/C.2/L.905, and was glad that its sponsors had included the complete text of Economic and Social Council resolution 1183 (XLI). As to the creation of a capital development fund, he reserved the right to speak on that subject later.

56. Mr. DIAKITE (Mali) said that on gaining their independence the developing countries had had to undertake a fundamental reform of their economic and social infra-structure in order to cope with the problems arising from the cessation of certain former economic and commercial flows. In order to expand the major sectors, they had had to take steps which had led to economic imbalances, including inflationary pressures due to the very rapid expansion of demand. The restrictions placed by the public authorities on the consumption of certain luxury goods led to a speculative rise in the price of those goods. That type of inflation resulting from austerity measures could be found in all economies which were attempting to put themselves on a sound footing. Inflation was in such cases a long term stimulant of economic growth; but it must not be maintained since it could give rise to more serious imbalances. Accordingly, total demand, prices and wages must be rigorously controlled so as to co-ordinate their fluctuations. That type of inflation could not be corrected by increasing imports of consumer goods, for while such imports might temporarily re-establish the balance of supply and demand, they did not increase productive capacity. For that reason, the developing countries gave priority to imports of capital goods. The same process had taken place immediately after the Second World War in Western Europe, which under the Marshall Plan had received not only consumer goods but, above all, funds and capital goods with which to rebuild its economic infra-structure. The primary task of the developing countries was to develop their production cycle, at least in the sectors in which optimum conditions prevailed.

57. It would be particularly regrettable if private capital were to turn its back on the developing countries, which were experiencing a balance-of-payments deficit that was perfectly natural in a period of economic development. Such a policy was not only mistaken but dangerous, inasmuch as it was the true cause of the serious crisis in development aid. At least the major international financial institutions should avoid falling into that error of diagnosis and behave differently, especially since the very reason for their existence was to assist economic development. They should take into account the material and human resources of the developing countries, their growth possibilities and the measures adopted by their public authorities to achieve a balance between resources and the uses made of them. But above all, the institutions in question must realize that inflationary tendencies were in such cases merely the logical consequence of the will to recovery which existed in the developing countries, and must be judged from a long-term point of view, since they would eventually be absorbed in the general process of economic growth.

58. Mr. ONKELINX (Belgium) said that his delegation could not support draft resolution A/C.2/L.898 in its present form. It considered the proposal to confer on the Secretary-General a mandate as wide as that envisaged in operative paragraph 2 unreasonable, and did not see how the Secretariat could formulate recommendations on possible measures to be taken in order to decrease the outflow of capital from the developing countries before the problem had been thoroughly investigated. His delegation favoured amendment A/C.2/L.906, but would be prepared to accept a text drafted in the spirit of Economic and Social Council resolution 1184 (XLI), in other words, simply requesting the Secretary-General to carry out the survey in question, which should cover the problem of the outflow of capital from the developing countries in all its aspects, including investments made abroad with capital originating in the countries in question.

59. With regard to draft resolution A/C.2/L.905, he reminded the Committee that Belgium had not been a member of the Economic and Social Council when resolution 1183 (XLI) was adopted. His delegation had not yet decided on its attitude to the draft resolution, but had the following observation to make. The second preambular paragraph contained a reference to General Assembly resolution 2088 (XX), to which Belgium had previously expressed several reservations that still held good. With regard to the seventh preambular paragraph, the truth of the statement that the poorer countries were capable of absorbing between $3,000 million and $4,000 million more each

year had yet to be convincingly demonstrated. The International Bank for Reconstruction and Development had not indicated the methods of financing which would make such a process of absorption possible. Furthermore, the sixteenth preambular paragraph, while its strictures on tied aid were in some cases justified, appeared somewhat too strongly worded. In any case, it was not his Government's practice to grant tied aid in the strict sense of the term. It tried at times to prevail upon the recipient countries to obtain their supplies in Belgium, but only where the material and equipment could not be found in the recipient country and where the prices, quality and delivery dates of the firms involved were competitive. The provisions of operative paragraph 3 (b) (vii) and (viii) were open to serious reservations, since the national legislation of the countries concerned would hardly allow them to be carried out. Even if some Governments could accept commitments of that kind with regard to outflows of capital, they would be unable to impose them on private capital exporters. As to operative paragraph 5, it was not clear how the service envisaged could be set up and made to function efficiently. As to sub-paragraph (b) (ii) of the same paragraph, it was indeed curious to request the Secretary-General to undertake a study on the implementation of a recommendation made by an intergovernmental organization and originally addressed only to the members of that organization.

60. Although convinced that it would be misleading and even dangerous to adopt a resolution without being aware of the limits of its application, his delegation nevertheless subscribed to the aims set forth in the preamble. Belgium's efforts in financial co-operation were equalled by those of few countries. In absolute terms, Belgium came sixth in transfers of capital to the developing countries, and the amount of its transfers in 1965 had exceeded the target of 1 per cent. While some stabilization of capital flows had become apparent during recent years, the donor countries had nevertheless made every effort to adjust and rationalize their institutions and instruments for co-operating in development, which was bound to be stimulated by that improvement in the quality of assistance. If combined with a more advanced organization of the "receiving structures" in the developing countries, it would enable the recipients and the suppliers of capital to co-operate more closely in future.

61. Mr. Mohamed AL-ATRASH (Syria) announced that Burundi, Uganda and Jamaica had joined the sponsors of draft resolution A/C.2/898. He was grateful to the Jordanian representative for having withdrawn his amendment. He agreed with the Peruvian representative that the measures to limit the outflow of capital should be taken by the Governments concerned themselves. However, it would be useful to suggest measures to limit the outflow of national private capital, the application of which would enhance growth efforts. Furthermore, as the representative of the United Arab Republic had indicated, the object was also to limit the outflow of public capital, namely debt-service payments, and that required international co-operation. He saw no reason to cast doubt, as the French representative had done, on the validity of the view of the President of IBRD, which had just been confirmed by the Secretary-General of UNCTAD. The tendency for the capital outflow from the developing countries to increase was a logical result of the rapid increase in the debt-servicing burden. In the circumstances, the sponsors of the draft could not accept the amendment submitted by the French delegation, for the techniques whose consideration that amendment proposed would apply only to outflows of private capital. The sponsors accepted the first Lebanese amendment to operative paragraph 2, namely the deletion of the words "containing recommendations". However, some of the sponsors were unable to accept that representative's second amendment. He asked the sponsors of the amendment in document A/C.2/L.906 not to press that amendment to a vote.

62. Mr. ABERKANE (Algeria), speaking on behalf of the sponsors of draft resolution A/C.2/L.905, said that what they mainly desired was that the General Assembly should endorse Economic and Social Council resolution 1183 (XLI), which was a vital contribution to the promotion of economic development. It was understandable that there should still be reservations regarding some provisions of that text since they would inevitably disturb certain acquired habits. Although Council resolution 1183 (XLI) had been the subject of hard negotiation, it had nevertheless been adopted with only three abstentions. The Japanese representative had criticized the form of the draft under consideration on several grounds. However, the text was one which the Secretariat had considered entirely acceptable. The aim of the sponsors had not been to transform the United Nations into a forum in which the developed countries would be pitted against the developing countries, but rather to ensure co-operation between the two groups of countries. The Jordanian representative's proposal to delete a part of the preamble of the Council's resolution would in fact destroy the balance of that text. With regard to the Canadian representative's suggestion that reference should be made to resolution 30 (IV) of the Trade and Development Board, he felt that it would be unwise to insert in the draft a mere reference to that resolution after having quoted the Council's resolution in extenso.

63. Mr. FERNANDINI (Peru) said that, in asking the sponsors of the amendment in document A/C.2/L.906 to withdraw their proposal, the Syrian representative had not suggested any alternative text. Consequently, the sponsors were obliged to maintain their amendment since the measures proposed involved the sovereignty of the States concerned.

64. Mrs. KODIKARA (Philippines) said that her delegation, although it had some reservations with regard to the fact that Economic and Social Council resolution 1183 (XLI) was incorporated as the preamble of draft resolution A/C.2/L.905, had become a co-sponsor of the two draft resolutions. She wished, moreover, to point out an inconsistency in draft resolution A/C.2/L.905: some of the donor countries were in fact already granting terms more favourable than those requested in the Council resolution.

65. Mr. OLSEN (Denmark), referring to draft resolution A/C.2/L.905, said that Economic and Social Council resolution 1183 (XLI) was on the whole a step forward and incorporated ideas which had long

formed part of the Danish policy on development. The representative of Sweden had already expressed the reservations of the Scandinavian countries with regard to sub-paragraph (a) of operative paragraph 3 of that resolution, and he merely wished to make a statement concerning the transfer of capital from Denmark to the developing countries which might be considered a reply to the representative of Ghana. The latter had concluded from document E/4170/Add.2 that, in 1965, Denmark had made the terms for its assistance more stringent. Since that time, however, the situation had taken a very different turn. As the Danish delegation had stated at the beginning of the session, in the general statements (1031st meeting), his country's expenditure for the benefit of the developing countries for the financial year 1966-1967 would be 85 per cent higher than that for the preceding financial year, and the Danish Government intended to continue that increase still further in the years to come. Most of the increase had been accounted for by bilateral aid, through which procedure his Government had in the first seven months of 1966 granted the developing countries long-term loans exceeding \$14 million with considerable periods of grace and no interest charges.

66. His delegation would vote in favour of draft resolution A/C.2/L.905.

67. Mr. CHAMMAS (Lebanon) said he believed that his delegation's amendment to operative paragraph 2 of draft resolution A/C.2/L.898 took precedence over amendment A/C.2/L.906. He proposed that the paragraph in question should be put to the vote separately. If his delegation's amendment was rejected, the Committee would be able to take a decision as to the deletion of the paragraph in question.

68. Mr. FERNANDINI (Peru) seconded the proposal of the representative of Lebanon.

69. Mr. GALLARDO MORENO (Mexico) requested a separate vote on sub-paragraph (b) of operative paragraph 3 of draft resolution A/C.2/L.898.

70. Mr. MARTIN WITKOWSKI (France) requested a separate vote on the second preambular paragraph of draft resolution A/C.2/L.898.

71. The CHAIRMAN invited the Committee to vote on the draft resolution concerning external financing of economic development of developing countries (A/C.2/L.898 and Add.1 and Add.2/Corr.1).

The second preambular paragraph was adopted by 69 votes to none, with 10 abstentions.

The Lebanese oral amendment to operative paragraph 2 was adopted by 27 votes to 5, with 47 abstentions.

Operative paragraph 2, as amended, was adopted by 72 votes to 7, with 10 abstentions.

Sub-paragraph (b) of operative paragraph 3 was adopted by 62 votes to 2, with 8 abstentions.

The draft resolution, as a whole, as amended, was adopted by 73 votes to none, with 10 abstentions.

72. Mr. ONKELINX asked for a separate vote on sub-paragraphs (b) (vii) and (viii) of operative paragraph 3 of the Economic and Social Council resolution incorporated in draft resolution A/C.2/L.905.

73. Mr. KAUL (India), speaking on a point of order, pointed out that a resolution of the Economic and Social Council could not be put to the vote in parts.

74. The CHAIRMAN invited the Committee to vote on the draft resolution concerning the flow of external resources to developing countries (A/C.2/L.905 and Add.1 and 2).

The draft resolution, as a whole, was adopted by 74 votes to none, with 8 abstentions.

The meeting rose at 7.15 p.m.

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