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CONTENTS

	<i>Page</i>
Agenda item 24: Economic development of under-developed countries (<i>continued</i>):	
(a) Question of the establishment of a Special United Nations Fund for Economic Development: report submitted in accordance with resolution 822 (IX) of 11 December 1954;	
(b) Question of the establishment of an International Finance Corporation: report of the Economic and Social Council;	
(c) Programmes of technical assistance: report of the Economic and Social Council	19
Agenda item 25: Report of the Agent General of the United Nations Korean Reconstruction Agency (<i>concluded</i>)	23

Chairman: Mr. Ernest G. CHAUVET (Haiti).

AGENDA ITEM 24

Economic development of under-developed countries (A/2955) (*continued*):

- (a) **Question of the establishment of a Special United Nations Fund for Economic Development: report submitted in accordance with resolution 822 (IX) of 11 December 1954 (A/2906);**
- (b) **Question of the establishment of an International Finance Corporation: report of the Economic and Social Council (A/2943);**
- (c) **Programmes of technical assistance: report of the Economic and Social Council (A/2943)**

GENERAL DEBATE (*continued*)

1. Mr. ZAIN (Indonesia) said that during the past year, the danger that the American recession started in the second half of 1953 might deepen into a depression had definitely receded. In fact, the United States of America was now enjoying a boom, with an expected gross national product of \$400,000 million. Actually, in 1953 Europe had had less to fear from a mild United States recession than in 1948, for its economy had been strengthened and had become even stronger in 1954. Whereas the American gross national product had declined, that of all European countries had shown an increase because of, among other factors, the extension of trade among the countries of Western Europe themselves and between Western Europe and Eastern Europe. A decline in effective demand on the part of the United States could thus be counter-balanced by the creation of new markets. The combination of these two factors, namely, that the American recession had been overcome and the high level of business activity

in Europe, had produced beneficial results in the other countries. Effective demand from the highly industrialized areas had been strong enough to stabilize primary commodity prices on which large regions of the world were so highly dependent.

2. The world economic situation in 1954 thus gave grounds for satisfaction, although caution was still necessary. Firstly, the American recession had affected the commercial flow of dollars into Europe and many under-developed areas. Secondly, in countries like the United Kingdom, a prosperous economy was fighting against such consequences of prosperity itself as an unsatisfied demand for goods and services.

3. In the under-developed countries the need for caution was even greater. Although they had benefited from relatively stable commodity prices, they had not shared the prosperity prevailing elsewhere. When, at the end of the Korean boom, the business cycle had begun to develop favourably, economic conditions in the under-developed countries had deteriorated. Revenues from exports and taxation had fallen in spite of improving business conditions elsewhere. The situation had been aggravated by the desire of the under-developed countries to achieve higher levels of prosperity for their ever-increasing populations. Particularly in under-developed areas which had recently won their independence there was growing impatience as people became aware of the divergencies between their incomes and those of the people of the more industrialized countries. Beyond mere food and clothing, they craved for schools, learning, hospitals and a variety of other services and for more and better goods. Although their means to fulfil such new and increasing wants were limited, no responsible Government could ignore them. Governments were compelled to seek ways and means of lessening the tension, which was becoming increasingly manifest even in countries that derived stable revenues from export markets, and of avoiding the constant threat of inflation.

4. Whatever surpluses and reserves might have been put aside during the Korean boom had had to be spent in order to maintain the machinery of administration and production and to provide for further development. The expenditures involved had resulted in budget and balance-of-payments difficulties which could not be offset by rising revenues, since the increasing demand for primary products had not led to any restoration of the export market, until 1954, when the industrialized countries had considered it necessary to replenish their inventories. By that time, the situation in the under-developed areas had become precarious. Budget deficits had had to be covered by the creation of new money, import restrictions had had to be applied and domestic price levels had been under constant pressure, thus hampering production as well as exports. So far, therefore, the effects of the favorable business cycle in the

world on the economy of the under-industrialized countries had proved negative. Tensions born of unsatisfactory conditions still prevailed in large areas and the sooner they were improved the better would be the economic outlook of the world. The target of helping the under-developed areas could only be achieved if the present prosperity was maintained. It was in everybody's interest that the economies of industrialized countries should continue to expand in an orderly manner. If primary commodity prices rose rapidly while the industrialized countries went through a period of inflation the result would be disastrous.

5. If the present prosperity in the industrialized areas continued, better export markets would, in time, certainly help to improve the budget and balance-of-payments positions of the under-developed countries, but it was arguable whether they would be sufficient to bridge the gap between earnings and expenditures. The extent to which present commodity prices would yield enough to cover previous budget deficits was doubtful while the discrepancy between domestic costs and prices abroad might still remain. The highly developed countries had, therefore, to do more than maintain a high level of business activity. On both the internal and the external fronts, international co-operation seemed highly desirable.

6. Firstly, the problem of export market instability had to be solved. As long as under-developed countries possessed a one-sided economic structure, they were dependent on their fluctuating export revenues which exposed them to the dangers of deficits and inflation. A United Nations committee had been set up to deal with that important problem and every constructive proposal in the report of that committee (E/2519) should be viewed dispassionately, including the proposals put forward by Mr. Benjamin Graham and Professor J. Goudriaan, who had hinted at the possibility of an integrated solution. The methods of disposal of United States surpluses should also be considered.

7. The United Nations had been operating an increasingly effective technical assistance programme and had established such organizations as the International Monetary Fund and the International Bank for Reconstruction and Development. Now that the ravages of war had been healed in the highly developed countries, partly through the efforts of such organizations, the time had come to give top priority to the under-developed countries. It was to be hoped that the Committee would take immediate decisions concerning the establishment of the International Finance Corporation and the Special United Nations Fund for Economic Development (SUNFED).

8. If the United Nations used such bodies to concentrate on helping the weakest units in the world economy, the under-developed countries would receive valuable financial and technical assistance; but the internal position of those countries should be strengthened simultaneously, a task that devolved mainly upon the Governments concerned.

9. The United Nations could do much to help. Studies might be undertaken analysing the various aspects of economic development and particularly of industrialization, to give Governments additional guidance in their efforts to lead their peoples towards higher welfare and prosperity. In that respect the Secretary-General deserved praise for his recent study entitled *Processes and Problems of Industrialization in Under-Developed*

Countries (E/2670). Another most useful document was that published in May 1955 by the Economic Commission for Asia and the Far East concerning "Economic indicators of inflation in ECAFE countries".¹

10. International co-operation under the aegis of the United Nations could go further. More technical experts might be put at the disposal of Governments to assist them in their development plans.

11. The world in general needed stable and balanced growth. At present, it was in a better position than in any previous year to mobilize technical and financial resources, to fight and conquer backwardness and poverty, to give happiness and greater prosperity to the many millions in the under-developed areas. That was the Committee's task and he hoped it would not fail.

12. Mr. MIR KHAN (Pakistan) said that in the post-war period the world economic picture had never been better than in the last two years and that the favourable trends in productivity and in international trade and payments were continuing.

13. Unfortunately, the contribution of the under-developed countries to the record rise in world productivity had been negligible and the gain in productivity in those countries had been offset by the increase in population. There was, therefore, a real danger that the gap between levels of living in the more developed and less developed countries would widen still further. The success of efforts to narrow that gap through the development of the economically backward areas would depend on the extent to which the more developed countries provided assistance.

14. In the expanding economy of industrialized countries capital formation was an almost automatic process as a result of increased savings and was even possible without a reduction in consumption. Unfortunately, the prevailing economic stagnation in most under-developed countries had reduced the capacity to generate savings as there was very little margin between production and consumption.

15. Pakistan, for example, where the rate of savings was inadequate despite the introduction of a variety of measures such as tax incentives and the expansion of banking facilities, had been forced to resort to deficit financing to a certain extent. That policy, however, was dangerous and could not be carried too far because in the absence of a real accumulation of savings it might lead to inflation, hoarding, loss of confidence in business circles and deterioration of the balance of payments. So far, Pakistan had managed to keep inflationary pressures under control but it also had to ensure that its development programmes did not suffer in the process. Pakistan had been able to increase its imports of capital goods substantially in the period 1950 to 1955 by drastically reducing its imports of consumer goods and similar commodities and encouraging investments in industry by means of tax exemptions. It was obvious, however, that if economic development at the desired level and speed was to be financed entirely from domestic resources, the economic and political structure of an under-developed country was exposed to stresses and strains which might be prejudicial to orderly progress of any kind.

¹ See *Economic Bulletin for Asia and the Far East*, Vol. VI, No. 1.

16. In order to supplement its domestic resources Pakistan had taken certain legislative measures to attract foreign capital. The Government had decided to permit full repatriation of original capital invested after 1 September 1954, in approved industries, together with capital gains and profits. Foreign investors had also been assured that they would receive full compensation if any industry was nationalized, and foreign investment was permitted up to 60 per cent in all approved industries, with the exception of public utilities.

17. The International Bank for Reconstruction and Development had provided loan capital for several productive schemes guaranteed by the Pakistan Government, and the International Finance Corporation, once established, would be able to encourage private investment by making loans to private enterprises. Unfortunately, the assistance provided by those two bodies could not be used to finance non-self-liquidating development projects which were necessary for the expansion of production and distribution in the under-developed countries. In that connexion, the attitude of the developed countries with regard to the early setting up of SUNFED had not been encouraging, despite their support of the principle involved. Although no substantial savings had yet been made as the result of internationally supervised disarmament, that should not prevent preparatory measures from being taken at the present time.

18. Lastly, the value of bilateral arrangements, such as the Colombo Plan, and the United Nations Technical Assistance Administration as methods of assisting the under-developed countries should not be underestimated.

19. Pakistan's recent decision to devalue the rupee had been a deliberate measure of economic policy. In September 1949, when sterling and other currencies had been devalued Pakistan had decided to maintain the parity value of the rupee because of the favourable prices of the primary products which made up the bulk of its exports. Its decision, by stimulating the import of capital goods and promoting economic development, had brought about a 285 per cent increase in industrial production between 1950 and 1954 and Pakistan was now self-sufficient in food, textiles and certain other necessities of daily life.

20. Recently, however, the Government, with the approval of the International Monetary Fund, had decided to devalue the Pakistan rupee because Pakistan had reached the stage where it could export increasing amounts of competitively priced manufactured goods and because the Government wished to ensure that jute and cotton growers received reasonable returns in the face of declining world prices. Devaluation would also have the effect of increasing cotton production for export purposes thus earning more foreign exchange, and while it would undoubtedly increase the cost of imports there was no longer any danger of inflation as most of the necessities of life were produced locally.

21. As Pakistan's economy was predominantly agricultural, great attention had been paid to land reform. The land tenure system was particularly unsatisfactory in Eastern Pakistan where great tracts of land were owned by a small number of persons. However, legislation had been passed and approximately 1,000 large private estates were being nationalized and the owners compensated in cash and security bonds. In the other

Provinces, too, the necessary legislation had been passed and the existing antiquated agricultural system was being reformed.

22. With respect to the expansion of international trade, he observed that the *World Economic Report, 1953-54* (E/2729), mentioned Pakistan as one of the countries which had not liberalized trade and payments during the year. Pakistan had not done so because the increased volume of trade had not been accompanied by any substantial change in the terms of trade between Pakistan and other countries, and because in 1954 the foreign exchange receipts from its two principal exports, jute and cotton, had been lower than in 1953.

23. Fluctuation in the prices of primary commodities had an unsettling effect on the economic development of the under-developed countries and the general question of commodity trade was of particular concern to Pakistan, which attached great importance to fair terms of trade and the stabilization of the demand for and prices of primary commodities. The relative stability achieved in 1954 following the fluctuations of 1951 was again in danger and the establishment of the Commission on International Commodity Trade was therefore particularly welcome.

24. The recent International Conference on the Peaceful Uses of Atomic Energy held in Geneva had been a major event and ensured that the peaceful uses of atomic energy would be available for the economic development of the under-developed countries. With regard to the negotiations at present under way for the establishment of an international atomic energy agency appropriately linked to the United Nations, Pakistan reiterated its view that full representation and adequate authority should be available to the under-developed countries in the agency's governing body.

25. Mr. WALKER (Australia) said that, although the progress made by the United Nations, and particularly the Economic and Social Council, during the last five years was impressive, the Council and the Assembly were still debating, often repetitiously, many of the problems that had first occupied their attention. The war had cut even more deeply into world economic organization than had been realized at the conclusion of hostilities, and subsequent political and ideological divisions had frustrated the economic hopes of the authors of the Charter.

26. Although, with the help of the United Nations, great achievements in reconstruction and increased production levels had been recorded and although the fear of major depressions and mass unemployment, which had so preoccupied the earlier sessions of the United Nations, had receded, the goal of an international economic order with convertibility of currencies and free movement of commodities, in accordance with the principles of multilateral trade, remained only partially achieved. Consequently, the various international financial organs, such as the International Fund and the Bank, had been unable to function as effectively as had been hoped. A fundamental disequilibrium in world trade and in the distribution of monetary reserves had persisted and the structure of international machinery had not yet been completed by the establishment of an international trade organization as envisaged in the Havana Charter.

27. Such failures were due partly to post-war political divisions, partly to the pressures of sectional interests and partly to international differences in the rate of

technical and industrial progress and to the continued instability of food and commodity prices.

28. Although economic co-operation under the United Nations had been in those respects somewhat disappointing, there had been two very important developments: the emphasis upon a regional approach to economic problems, and the increasing concentration upon the economic development of under-developed countries. In spite of initial apprehensions that they might lead to overlapping and be open to regional political pressures, the economic commissions had proved their worth and the soundness of the regional approach had been demonstrated by such programmes as the Organization for European Economic Co-operation, the Colombo Plan and the Organization of American States.

29. The magnitude of the problem of economic development was such that its solution would take a considerable time, but the important thing was that it was at last being tackled in ways that had not been widely applied in the past and that definite results were being observed.

30. Australia, although a capital importing country and likely to remain so for many years, was anxious to make its contribution to the various international efforts to accelerate the development of countries with low living standards, especially of its neighbours in South East Asia. Australia's expenditure on the Colombo Plan, the Expanded Programme of Technical Assistance and other similar schemes would amount to more than \$12 million that year.

31. On re-reading the 1951 report entitled *Measures for the economic development of under-developed countries* (E/1986), he had been impressed by the excellence and continued relevance of the experts' analysis of the many factors controlling the economic development of under-developed countries. That study was useful in helping to keep the different aspects of the problem in proper perspective. Finance was of fundamental importance for development, but the limitations imposed by natural resources, by the pressure of population and by psychological and social institutions in some countries must not be overlooked. The references, in the report on SUNFED (A/2906), to the limited capacity of the under-developed countries to absorb capital were another way of saying that factors other than capital shortage were also blocking development and must be dealt with by the under-developed countries themselves before the full benefits of foreign capital investment could be obtained.

32. Remarkable progress had been made towards solving many of the problems mentioned by the experts in the 1951 report, who had stated that, unless a special effort was made, the process of technological development in the under-developed countries would be relatively slow. Since then a special effort had been made and was continuing. The technical assistance programmes of the United Nations and the other international technical assistance schemes were beginning to exert a cumulative influence upon the development of the recipient countries.

33. Again, in 1951 the experts had remarked that the first major obstacle to the general advance in technology in under-developed countries was the lack of an educational and administrative structure through which the producers could learn the new technology. The Committee would be aware how much emphasis had

been laid on meeting that need in the various technical assistance programmes, particularly those of the United Nations Educational, Scientific and Cultural Organization.

34. Another obstacle to the absorption of technology, according to the experts in 1951, was the lack of the capital goods required to apply new techniques, a problem which had received particular attention by those responsible for the economic development programme of the Colombo Plan. The scale of the Colombo Plan might still be modest in relation to the total needs, but it provided many useful pilot projects in the combination of technical and economic assistance.

35. The 1951 experts had stressed the need for the Government of each under-developed country to prepare an integrated national plan for development. His impression was that many under-developed countries had greatly improved their planning machinery in recent years.

36. Even when the provision of external capital to supplement domestic capital formation was considered, progress was undeniably being made. Without going into the accuracy of all the estimates of the 1951 experts, it was obvious that the amount of foreign capital available for investment in under-developed countries still fell short of what was desirable, but there too a certain progress was being made. The loans issued by the International Bank had increased steadily; the International Finance Corporation could apparently soon come into being; and the economic assistance provided by Governments under the Colombo Plan and various bilateral agreements was also making a significant contribution.

37. Of course, the main burden of economic development would fall on the people of the under-developed countries themselves; they must endeavour to increase domestic savings and ensure that they were mobilized for investment. They must see to it that, as production increased, domestic capital formation was also increased. They must take steps to create the political and social conditions that assisted economic growth and created a climate favourable to international co-operation in the provision of capital. It was gratifying to note that a number of under-developed countries had recently taken such steps.

38. But, even if an under-developed country pressed on with its economic development, the amount of capital formation it could undertake depended very much on its income from foreign trade. If the proceeds of exports were neither substantial nor stable, the development and even the continued stability of the country was threatened. In that connexion, it was encouraging to note from the *World Economic Report, 1953-54*, that in 1954 the total volume of world trade had been higher than in 1953 and that there had been a greater tendency towards equilibrium in trade movements and an improved distribution of monetary reserves. The 11 per cent increase in Western Europe's foreign trade emphasized the contribution which that area could make to world prosperity.

39. The *World Economic Report, 1953-54*, also encouraged the belief that relatively small fluctuations in United States production need not always have as far-reaching consequences upon other countries' trade as in 1948-49. There was every sign that the United States was able to take the necessary steps to prevent the minor fluctuations of a high-level economy from generating major depressions.

40. On the other hand, there were difficult problems to be faced in regard to international commodity policy where international co-operation had made too little progress. Not so very long ago, countries like Australia had been expected to do everything possible to increase their output of essential foodstuffs and had accepted, in the interests of world recovery, lower prices than would have resulted from the free play of market forces. Producers in those countries were suffering from their previous efforts. If those difficulties were not overcome, industrial countries would find in turn that their own markets would shrink.

41. The international agreements reached during and since the war to regulate economic relations had been conceived mainly to meet the interests of the leading industrial countries, but similarly effective safeguards had not yet been evolved for the primary producing countries. Subsidies, quota restrictions and bilateral trade agreements affecting foodstuffs and raw materials continued to bar the way to the most economic uses of the world's resources. They also reduced the capacity of the under-developed countries to bear the costs of their own development.

42. Australia was at the moment facing one of those periodic readjustments which seemed to be inescapable in a rapidly developing country whose export trade consisted chiefly of raw materials. When, owing to a fall in world demand for its exports, it found itself in balance-of-payments difficulties, Australia had no alternative but to reduce its imports and restrain its development programme. That illustrated the importance of finding means of reducing the fluctuations in world prices for raw materials.

43. Australia had welcomed one million immigrants since the war and an ambitious development programme which it was financing mainly out of its own resources was required to absorb the expanding population which was increasing by 2.5 per cent per year.

44. In recent years, approximately 25 per cent of the Australian gross national product had gone into investment. A large part of Government investment had been financed out of consolidated revenue. However, Australia still needed a certain amount of foreign capital

and to assist its development it had, *inter alia*, obtained funds from the International Bank which would soon total \$258,500,000. Over 700 United States manufacturers had invested in Australian industries.

45. One prominent feature of Australia's development had been the steady growth in its manufacturing industries. At the same time, its imports of capital equipment and of consumer goods had been running at ever higher levels. To support the large expansion of imports special attention had been paid to export production, the volume of which had increased by 15 to 20 per cent in the past three years. The fall in the price of wool, in 1954 and 1955, had added to the tendency of the terms of trade to move against Australia and had disturbed its balance of payments. His Government had recently been obliged to reintroduce trade restrictions expected to reduce imports by the equivalent of \$180 million per year. At the same time, measures had been adopted to impose a restraint on internal economic expansion. The Prime Minister had affirmed the Government's determination to restore the balance of payments fully by such measures by June 1956.

46. It was thus apparent that although Australia enjoyed living standards similar to those of the more advanced countries, it shared some of the special problems of the under-developed countries. It would continue to give sympathetic consideration to the needs of the latter and to seek realistic solutions to their problems.

AGENDA ITEM 25

Report of the Agent General of the United Nations Korean Reconstruction Agency (A/2936) (*concluded*)

REPORT OF THE RAPPOREUR (A/C.2/L.262)

47. The CHAIRMAN said that, if there was no objection, the draft report (A/C.2/L.262) on the report of the Agent General of the United Nations Korean Reconstruction Agency (A/2936) would be considered adopted.

It was so agreed.

The meeting rose at 12.10 p.m.