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ECONOMIC COMMITTEE

SUMMARY RECORD OF THE NINETY-FIRST MEETING

Held at the Palais des Nations, Geneva,
on Friday, 28 July 1950, at 10.30 a.m.

CONTENTS:

Present:

Chairman: Sir Ramaswami MUDALIAR (India)

Members:

Australia	Mr. WALKER
Brazil	Mr. de ALMEIDA
Canada	Mr. ARNOLD SMITH
Chile	Mr. SCHNAKE-VERGARA
China	Mr. CHA
Denmark	Mr. IVERSEN
France	Mr. de SEYNES
India	Mr. ADARKAR
Iran	Mr. KHOSROVANI
Mexico	Mr. MARTINEZ-OSTOS
Pakistan	Mr. QURESHI
Peru	Mr. ENCINAS
United Kingdom of Great Britain and Northern Ireland	Mr. FLEMING Miss WATTS
United States of America	Mr. LUBIN

Representatives of specialized agencies:

International Labour Organization	Mr. DAWSON
Food and Agriculture Organization	Mr. OLSEN
United Nations Educational, Scientific and Cultural Organization	Mr. BERKELEY
International Bank for Reconstruction and Development	Mr. KNAPP Mr. LOPEZ-HERRARTE
International Monetary Fund	Mr. GUTT Mr. FISHER

Representatives of non-governmental organizations:

Category A

World Federation of Trade Unions	Mr. FISCHER
International Federation of Christian Trade Unions	Mr. van der PLUYM
World Federation of United Nations Associations	Mrs. EVANS

Category B

Commission of the Churches on International Affairs	Mr. MOURAVIEFF

Secretariat:

Mr. Weintraub	Director, Division of Economic Stability and Development
Mr. Dorfman	Department of Economic Affairs
Mr. Messing-Mierzejewski	Secretary to the Committee

METHODS OF FINANCING ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES, INCLUDING CONSIDERATION OF THE REPORT OF THE SUB-COMMISSION ON ECONOMIC DEVELOPMENT (FOURTH SESSION) (item 6 of the agenda) (E/1690, E/1757, E/L.73, E/AC.6/L.7, E/AC.6/L.8, E/CN.1/80) (continued)

The CHAIRMAN invited representatives to resume consideration of the draft resolutions contained in the report of the fourth session of the Sub-Commission on Economic Development (E/CN.1/80), together with the Chilean draft resolution (E/1757) and the joint draft resolution submitted by Chile and the United States of America (E/L.73).

The Sub-Commission's draft resolution next in order was number 4, on non-dollar financing (E/CN.1/80, page 31). Apart from the preamble, the exact terminology of which could be formulated by the drafting committee, it contained two recommendations.

Mr. ARNOLD SMITH (Canada) expressed his Government's approval of the principles underlying the two recommendations contained in draft resolution 4. It was certainly desirable that highly industrialized countries should assist under-developed ones. He would, however, move the deletion of the word "blanket" from the second line of the first recommendation, relating to the utilization by the International Bank for Reconstruction and Development of the 18 per cent of members' subscriptions payable in domestic currencies. His country had already allowed a proportion of its subscription to be so used, and would do so in future, but it would be preferable that permission to do so should be given ad hoc, since only governments whose liquidity was unassailable could afford to give blanket permission. The Canadian Government, for one, could not. Since it was likely that many other governments would also be unable to accept so far-reaching a commitment, it would be better to delete the expression.

Mr. de SEYNES (France) said he had already explained, during the general discussion on item 6, why France could not go so far as the Sub-Commission on Economic Development asked, either in respect of the opening of the money market to International Bank issues, or in respect of the utilization by the Bank of that portion of France's capital contribution which was subscribable in domestic currency.

His delegation therefore supported the Canadian proposal that the word "blanket", which might be rendered in French by the words "blanc-seing", be deleted, but hoped that that modification of the recommendation would not have any significant practical consequence. What was important for France was, not that the Bank should have blanket powers in respect of the part of the French subscription payable in national currency, but that it should be in a position to make good use of it. France was anxious that the schemes now under discussion - those referred to by the representative of the International Bank, and for the execution of which the French domestic currency contribution could be used - should be carried out in the near future.

Mr. IVERSEN (Denmark) supported the Canadian representative, and recalled that his Government had already reacted favourably to the recommendation by releasing part of its 18 per cent subscription for the benefit of Finland. He was in complete agreement with the Canadian representative's arguments against the use of the term "blanket".

Danish engineering and industrial firms had participated in development projects abroad, and would no doubt continue to do so. But his country's balance of payments position did not permit it to open its market to bond issues of the International Bank.

Miss WATTS (United Kingdom), having recalled that her Government had already expressed (in the draft resolution set out in document E/L.67) its sympathy with the principles underlying the recommendations of draft resolution 4, and that at the 382nd meeting of the Council Lord Alexander had stated that the United Kingdom aimed at attaining a surplus balance on current account which would permit an increase in long-term overseas investment, said that the recommendations brought to mind two considerations.

First, any export of capital, whether made through the International Bank or in some other form, must necessarily be a strain either on a country's monetary reserves or on its physical resources. She would consequently suggest that the qualifying clause in the second recommendation reading: "consistently

with their balance of payments position and the desirability of promoting their own economies", be also introduced in the first recommendation.

She supported the Canadian representative's proposal that the term "blanket" should be deleted. In the early part of 1950 her Government had informed the International Bank that it would be prepared to release a comparatively small amount of its local currency subscription, up to a total of one million pounds sterling, for use up to the middle of 1951, when the situation would be reconsidered.

The second consideration to which she would draw the Committee's attention was that if a country were, in accordance with the first recommendation, to make more of its domestic currency subscription available for the Bank's use before it could afford to expand its total capital exports, it would almost certainly have to reduce its financing of overseas investment in other forms. If, thereafter, borrowing of non-dollar currencies from the Bank were to increase, and to be substituted for borrowing of dollars which would otherwise have taken place, the total flow of international capital might be reduced. She would in that connection recall that the representative of the International Bank had stated at the 385th meeting of the Council that the Bank was not empowered under the terms of Article III of its Articles of Agreement to make tied loans; it could thus lend dollars to cover a borrower's expenditure in other currencies.

Mr. WALKER (Australia) supported the recommendations of draft resolution 4, subject to the amendments proposed by the Canadian and United Kingdom representatives. He wished, however, to make clear the Australian Government's position. Australia was in some respects a developed country, but in others it was insufficiently developed. Plans had been drawn up for rapidly increasing the population through immigration. In 1949, Australia had accepted 150,000 immigrants, 90,000 of whom had come to the country under the auspices of the International Refugee Organization, and 60,000 under other schemes. The total population of Australia was at present 8,000,000. If an annual rate of increase of 500,000 were maintained, the Australian situation would in some respects resemble that obtaining in under-developed countries - in other words,

a strain would be placed on local industries and on local resources in raw materials. His Government had undertaken certain commitments towards its neighbours, and would certainly honour them, but there were physical limits to what it could actually do, and it would not regard itself as bound to release to the Bank the full 18 per cent of its subscription payable in Australian currency. It must heed the development of its own economy, and the obligations it had already undertaken. In other words, his Government was not prepared to be classified forthwith as one of the more developed countries.

Mr. de ALMEIDA (Brazil) was also prepared to accept the recommendations of draft resolution 4, but moved the deletion of the word "basic" from the sixth line of the second, on the grounds that the object of that recommendation was to make sure that the Bank applied a flexible lending policy, and that it would consequently be inconsistent to tie loans to the financing of basic development projects only.

Mr. LUBIN (United States of America), having also expressed his Government's general agreement with the substance of the draft resolution, moved the deletion of the word "regretfully" from the sixth paragraph of the preamble, and of the reference to "any new arrangements" from the third line of the second recommendation. It was hardly possible to expect governments to commit themselves to 'new' arrangements, the precise nature of which would obviously be unknown to them until they had been made.

Mr. ADARKAR (India) did not consider that the use of the term "blanket" in the first recommendation was open to serious objection. It should be interpreted in the light of the comments made by the Sub-Commission in paragraph 36 of its report (E/CN.1/80, page 19). Certain governments had already made token releases, but the amounts involved were comparatively small, and the request that the developed countries should assume an obligation to finance development by releasing to the Bank the 18 per cent of their subscription payable in domestic currency was surely not excessive. He feared that if such countries gave the recommendation only qualified support, there would be no change in the

existing situation. He had noted the implicit contradiction in the Australian representative's statement, when the latter had said that his Government agreed to the recommendations, but would be unable to accept the obligations they prescribed.

The United Kingdom proposal that the qualifying clause be inserted in the first recommendation also, would weaken that clause's effectiveness. He was opposed to the trend implicit in those amendments, and would urge the more developed countries to accept the text as it stood. He could, however, agree to the United States suggestion that the word "regretfully" be deleted from the sixth paragraph of the preamble.

Mr. ARNOLD SMITH (Canada) did not consider that the deletion of the term "blanket" would impair the significance of the first recommendation, the purpose of which was earnestly to urge governments to release a higher proportion of the 18 per cent of their subscriptions payable in their own currency. He had already drawn attention to the action taken by his own Government, and did not doubt that the recommendation, if adopted by the Council, would receive most serious consideration from all governments. But the implementation of the programme must be gradual, and it was impossible for the Canadian Government, for one, to accept a full blanket commitment.

Mr. ADARKAR (India) drew attention to the fact that the two recommendations of draft resolution 4 were substantially different. The first related directly to the operations of the International Bank; as to the second, he agreed with the United Kingdom representative that the possibilities of lending countries should be taken into account. But that was no reason for weakening the first recommendation. While the first recommendation did not imply a recurring liability, the liability arising out of the second recommendation might be unlimited, unless qualified by the provisos laid down in the first.

Mr. ENCINAS (Peru) said that his delegation supported draft resolution 4. With regard to the deletion of the word "blanket", it was important to define clearly the authorization given to the Bank to use the percentage of subscriptions

payable in domestic currencies. Otherwise the present situation would persist unchanged, and there would be no progress. But that authorization could be defined in some other way than by the epithet "blanket".

The Peruvian delegation also supported most of the amendments submitted during the debate, especially the United States proposal that the word "regretfully" be deleted.

The CHAIRMAN considered that the discussion on draft resolution 4 had been sufficiently exhaustive to provide guidance to the drafting committee in its work, and invited members to consider draft resolution 5 (studies by the International Monetary Fund).

Mr. LUBIN (United States of America) expressed his Government's approval of draft resolution 5, but pointed out that the studies proposed therein would prove difficult to carry out. For instance, the statistical data called for under sub-paragraph (b) of the operative section were, at least in the case of his own country, not available for periods before 1900. The same difficulty would probably also arise in the case of the studies envisaged in sub-paragraphs (a), (c), (d) and (e). As for sub-paragraph (d), which related to a waiver clause for transfers of interest, dividends and capital, it was implicitly suggested therein that the International Monetary Fund and/or any other interested international agency should pass judgment on the conditions which might be laid down for such a clause. He failed to see how an agency could be requested to express an opinion of principle on so weighty an issue. Certain payments involved in the transactions contemplated were made to private investors, and the Fund should not be asked to state in what circumstances a Government might legitimately be asked to implement a waiver clause in the case of that type of investor.

Moreover, since the proposed studies touched not only on problems of current account, but also on those of long-term investments, it would be appropriate for the Fund to carry out its studies in consultation with the International Bank for Reconstruction and Development, as well as with any other interested agencies.

Mr. MARTINEZ-OSTOS (Mexico) explained that his country had no direct interest in draft resolution 5, since convertibility both of current and of capital accounts was unrestricted in Mexico. But the resolution affected all countries where there was exchange control affecting transfers on either current or capital account, most of which exercised the rights regarding transition periods granted under Article 14 of the Articles of Agreement of the International Monetary Fund. They also enjoyed the option of maintaining such control as they judged desirable over the movement of capital. The Mexican delegation therefore thought it rather strange that sub-paragraph (d) of the operative section should mention not only transfers of interest and dividends, but also transfers of capital. Such mention did not seem to conform with the provisions restricting the movement of capital.

The second paragraph of the preamble should not refer only to the obligations assumed by members of the International Monetary Fund, but should also mention their rights.

He agreed with the United States representative that the studies which the International Monetary Fund would be called on to make were very complex, and that they should preferably be limited to what could actually be accomplished. His delegation's basic objection was that the draft resolution appeared to refer only to capital-importing countries, and not to countries which were, or would be in future, in a position to export capital. The draft resolution should make mention of capital-exporting countries with controlled currencies, and should ask the International Monetary Fund to study whether such countries could lift or reduce some of the controls, so as to be able in due course to export capital.

Mr. ARNOLD SMITH (Canada) thought that the proposed studies might prove valuable, despite possible lacunae and difficulties. In his Government's opinion, however, the studies should not be undertaken solely by the Monetary Fund and the International Bank, but should be carried out jointly by those two agencies and the countries concerned, since the latter would be responsible for providing the statistical data.

The drafting committee should consider the preamble of draft resolution 5 in the light of that suggestion.

Mr. de SEYNES (France) said that the French delegation had felt the same difficulty as the United States delegation in respect of sub-paragraph (d) of the operative section of draft resolution 5. That sub-paragraph differed considerably from the other four, which merely asked the International Monetary Fund to assemble data and to draw technical conclusions therefrom. He felt that the draft resolution would go beyond its general scope if it recommended that the Fund should make an assessment of questions which, in the final analysis, were matters of national sovereignty. Hence the French delegation would welcome the deletion of sub-paragraph (d), or at least a redraft thereof, which might confine itself to requesting the International Monetary Fund to study the conditions under which certain debtor countries had been obliged to postpone transfers of arrears of loans contracted.

As to the Mexican proposal that the International Monetary Fund should also investigate the situation of certain industrial countries which were, or might become, exporters of capital, the French delegation saw no objection to such a study. But, as in the case of capital-importing countries, the study ought not to make any pronouncement on measures which were, in the last resort, entirely a matter of national sovereignty.

Mr. MARTINEZ-OSTOS (Mexico) agreed with the Canadian and French representatives.

Miss WATTS (United Kingdom) agreed that the proposed studies might prove useful, but shared the conviction of the United States representative that certain difficulties in the collection of data would undoubtedly arise, especially in relation to sub-paragraphs (a) and (b).

She entirely agreed with the Mexican representative that both the obligations and the rights of the members of the International Monetary Fund, as laid down in its Articles of Agreement, should be mentioned.

Mr. FISHER (International Monetary Fund) said that the Fund had carefully considered the list of topics on which the Economic and Social Council might request it to undertake studies in implementation of the recommendations made by the Sub-Commission on Economic Development. If the Council were so to decide, the Fund would be prepared to undertake statistical studies on the subjects defined in sub-paragraphs (a) and (b) of the operative section of draft resolution 5. It was, however, only fair to point out that the inadequacy of the statistical data available for the pre-war periods might result in somewhat disappointing results. For that reason, the Fund would be unable to undertake any firm commitment in respect of either the timetable or the scope of the studies.

The Fund was also ready to prepare summarized statements on the statutory and administrative measures designed to provide for servicing foreign investment in times of exchange stringency (sub-paragraph (c)). The usefulness of such statements would depend on their thoroughness, and the Fund would therefore propose that during the coming year it should concentrate on a limited number of statements dealing with a few selected, typical countries.

The subject defined in sub-paragraph (d) was not one on which the Fund had authority to express an opinion. If the question were to arise in practice, it would undoubtedly be a matter for settlement by the parties directly concerned. Consequently, the Fund would be unable to accede to a request for a study on that point.

The question raised in sub-paragraph (e), namely, the relation of fluctuations in the prices of primary products to the ability of under-developed countries to obtain foreign exchange, was both wide and important. Since it affected many members of the Fund in various ways, the Fund constantly kept it under review in certain of its aspects. But it did not seem that the subject could usefully be treated in a general paper of the kind that the authors of the draft resolution had presumbly had in mind, unless indeed it were expanded to such an extent as to become an assignment which the Fund would be unable to carry out. Consequently, the Fund would prefer that that

topic be deleted from the list of proposed studies, although any relevant documents produced in the ordinary course of the Fund's work and suitable for circulation outside the Fund could be made available by the latter, assuming always that the Council decided that some provision for a study should be made.

He would add in conclusion that the Fund assumed that, before formulating any specific requests, the Secretary-General would consult it on the exact form and scope of the studies.

The CHAIRMAN said that, in considering draft resolution 5, the drafting committee would keep in mind the views expressed by members of the Committee, and requested members to turn to draft resolution 6 (Certain special types of foreign investment).

Mr. IVERSEN (Denmark) said that his delegation was uncertain as to the meaning of clause (b) in paragraph 1 of the recommendation. Clause (a) specifically referred to the protection of the resources of under-developed countries; clause (b) consisted of a general reference to the improvement of the balance of payments position of those countries. He presumed that it was based on some of the preliminary documents studied by the Sub-Commission, for example, the report of the meeting of experts (E/1562). However, he could not recall any such statement in that document, nor had he been able to find it therein.

He fully appreciated the importance of preserving mineral resources from exploitation, to which reference was made in clause (a), but considered that the problem mentioned in clause (b) concerned the under-developed countries themselves. Foreign exchange receipts from for instance, mining operations must necessarily fluctuate from year to year, with the result that under-developed countries which depended on the export of one or two mining products might find themselves in serious periodic balance of payments, as well as budgetary, difficulties, if a considerable part of their revenue were derived from the taxation of foreign companies. Those difficulties could be solved by means of a foreign exchange equalization account, reserves being built up during the good years to cover bad years.

Turning to the problem of the depletion of natural resources, he considered that it would be an error for the under-developed countries to treat the income derived from the exploitation of such resources as current income. Such income should be used for capital investment, and thus provide a substitute for the "natural capital" which was gradually depleted.

Miss WATTS (United Kingdom) agreed with the Danish representative's interpretation of paragraph 1 of the recommendation. The principle enunciated in clause (b) thereof had frequently been expressed in fuller form in other resolutions and recommendations. She could see no valid reason for re-iterating it in the present draft resolution.

Mr. MARTINEZ-OSTOS (Mexico) felt that the provisions of the draft resolution should not, as they would appear to be from paragraph 2 of the recommendation, be limited to the construction of railways. So to limit them would imply that under-developed countries might tolerate violation of their sovereign rights in other fields. To obviate that risk, the Committee could either abandon draft resolution 6, or amend it so as to cover not only railways, but all other construction carried out with the assistance of foreign loans, or by foreign companies.

Mr. LUBIN (United States of America) agreed with the United Kingdom representative, and referred to the important resolutions adopted by the Council on the conservation of natural resources. The principle that foreign investments should not lead to interference in the domestic affairs of the receiving countries had been generally accepted; and he would specifically recall that many statements had been made, and resolutions adopted to that effect, at previous sessions of the Council.

He also referred to the Council's resolution on the Technical Assistance Programme, in which it was stated that that programme should not be used as a means of exploitation. For that reason, he, too, felt that the draft resolution was superfluous, since the purpose of adopting a series of specific recommendations was to deal with the problems of development in their practical aspects, and not from the point of view of general principle.

The CHAIRMAN said that, speaking personally, he could only agree with the United States representative. It was not clear to whom the recommendation in draft resolution 6 was addressed, or who was supposed to protect the under-developed countries.

The drafting committee would consider whether that draft resolution was really necessary and, if so, how it should be drafted.

He invited comments on draft resolution 7, on the stimulation of private foreign investment.

Mr. MARTINEZ-OSTOS (Mexico) referred to and confirmed the statement he had made on that subject during the discussion in the Council.

The Mexican delegation would like to suggest a slight amendment to the fourth paragraph of the resolution proposed by the Sub-Commission, which began "Concludes that under-developed countries must in their own interests...", namely, the insertion after the words "economic development", of the words "in those fields which by their very nature should attract private investment", so that that paragraph would read:-

> "Concludes that under-developed countries must in their own interests depend largely upon private capital for their economic development in those fields which by their very nature would attract private investment, if such development is to proceed at a satisfactory rate; and"

With regard to the operative section of the draft resolution, he considered it hardly equitable to recommend to under-developed countries a series of measures which conflicted with paragraph 22 of the Sub-Commission's report, which, in common with other documents published by the United Nations, stressed the principle that assistance to under-developed countries "should be given without intervention in the domestic affairs of the under-developed countries concerned, and without seeking any special economic, political or other advantages". His country sincerely welcomed the investment of foreign private capital, which it considered important for economic development. To that end, important domestic measures had been taken to attract the foreign investor who sought fair treatment and reasonable returns; in fact, the returns were always high. But it seemed

to him that sub-paragraphs (a) (iii), (iv) and (v) of the recommendation involved interference in the domestic affairs of the country in which capital was invested. He agreed that there should be no discrimination between domestic and foreign private capital, but guarantees of the sort envisaged under sub-paragraph (a) (iii) were equivalent to discrimination against national private investment. The Mexican delegation would oppose any recommendation of that kind. The same applied to the measures contemplated under sub-paragraph (a) (v), which might lead to discrimination against the nationals of under-developed countries. That would also be opposed by his delegation.

In his opinion, the draft resolution should go no further than to recommend that, where there existed discrimination against foreign investment, it should be eliminated, and that the domestic legislation of each country should provide the foundation of such guarantees of non-discrimination against foreign investment.

Mr. LUBIN (United States of America), replying to Mr. ADARKAR (India), said that the joint draft resolution submitted by the delegations of Chile and the United States of America (E/L.73) had not been intended by the United States delegation as a substitute for draft resolution 7.

Mr. ARNOLD SMITH (Canada) said that his delegation shared the views expressed by the minority of the Sub-Commission and summarized in footnote 13 of the Report of the Sub-Commission. He subscribed to the minority view that action to stimulate private foreign investment should come from individual governments, both exporters and importers of capital, until such time as conditions became propitious for the negotiation of an international treaty. Certainly, the creation of a spirit of goodwill and co-operation would be more favourable to investment than the rigid legislative and administrative arrangements laid down in the draft resolution. In his view, the latter would not lead to practical results. He would not oppose it if the majority of the Committee was in favour of its retention, but if it were adopted he would propose the amendment of paragraph (b) of the recommendation, in which the means by which the more developed countries could encourage the investment of private capital in under-developed countries were listed. It was not for the Council to recommend the

adoption of means which might or might not be suitable in particular cases. He would therefore propose that the enumeration be introduced by the following words: "and some of the means might be as follows", instead of by the formula used in the draft resolution.

Mr. de ALMEIDA (Brazil) recalled that his delegation had already explained at the 383rd meeting of the Council that it was opposed to draft resolution 7 because that resolution lacked balance, laying too much emphasis on the action to be taken by the under-developed countries, and too little on that which should be taken by the capital exporting countries. In his view, there was a contradiction between the Sub-Commission's analysis of the problem of establishing a code for private foreign investment - an analysis which had led them to the conclusion that such a code would not be very useful - and the recommendations of the draft resolution, whereby procedures similar to a code were in point of fact prescribed. He supported the minority view, and would prefer the Committee to abandon the draft resolution altogether. He would, however, not press that point if the Committee as a whole thought differently.

He agreed with the criticisms of the Mexican representative, and would support the latter's amendments to sub-paragraphs (iii) and (iv) of sub-paragraph (a), were resolution 7 retained.

Mr. LUBIN (United States of America) said that he was prepared to endorse draft resolution 7 because it might lead to constructive results, but agreed that certain difficulties were involved, such as those raised by sub-paragraphs (iii) and (iv) of paragraph (b) of the recommendation. The former might lead to the introduction of discriminatory taxation as between foreign and national investors in a given country. He would in that connexion point out that the United States Government allowed taxation credits to investors who were taxed by foreign governments. Furthermore, changes in the relevant legislation were now being considered in order to remove certain existing deterrents for investors desirous of placing money abroad. As for sub-paragraph (iv) of paragraph (b) he could not very well agree to that recommendation as his Government was not

prepared to make provision for long-term government contracts, since imports into the United States should in its view be, wherever possible, effected by private investors.

Mr. ADARKAR (India) agreed with the Canadian representative's statement, and also expressed his endorsement of the minority view which preferred negotiation by bilateral agreements to regulation by means of a resolution. The intentions of the resolution were nevertheless sound, and from the point of view of structure, the resolution had its importance, since it alone dealt with the subject of private investment.

He was also opposed to the enumeration in sub-paragraphs (i) - (vi) of paragraph (a) of the recommendation, since that enumeration did not constitute a general code, but was merely a list applicable in certain situations only. It was thus neither sufficiently general nor sufficiently exhaustive. He would therefore propose that the drafting committee retain the considerands of the draft resolution, together with paragraph (a) of the recommendation without its dependent sub-paragraphs, and paragraph (b) thereof, as amended by the Canadian representative. It would then be possible to merge paragraphs (a) and (b) in one recommendation, which would be equally applicable to the more developed and to the under-developed countries.

Mr. de SEYNES (France) said that the United States representative's remarks brought out the danger of adopting such a resolution as draft resolution 7. It was not in fact possible to draw up in one or two paragraphs a real code for the equitable treatment of foreign capital. The French delegation, while fully in agreement with the aim of the resolution, was for that reason of the opinion that it would do more harm than good. The drafting committee should take due note of all the suggestions put forward for toning down and simplifying the resolution, and giving it a more general character. Paragraph 1(b) of the joint draft resolution submitted by the Chilean and United States delegations (E/L.73) admirably expressed the essential elements of draft resolution 7.

Mr. SCHNAKE-VERGARA (Chile) agreed with the French representative that the Council would find it difficult to adopt the draft resolution in its present form, since it consisted neither of a sufficiently general statement nor of an exhaustive list of international obligations concerning private international investment. The draft resolution was unbalanced, because it laid greater stress on the obligations of the borrowing countries than on those of the lending countries. He agreed with the view of the minority of the sub-Commission recorded in the footnote to the draft resolution (footnote 13 to the Sub-Commission's report) that the creation of a spirit of goodwill and co-operation was more important to ensuring a greater and more stable flow of private international capital than was the compilation of an exhaustive list of international obligations governing such investment. The Committee should not attempt to draw up such a list; Governments of lending and borrowing countries should conclude agreements providing guarantees for both the capital-exporting and the capital-importing countries. He considered that recommendation 1(b) of the joint draft resolution submitted by the Chilean and United States delegations (E/L.73) was an adequate expression of the consensus of opinion in the Committee on the subject of stimulating private foreign investments, and was therefore of the opinion that draft resolution 7 should be dropped.

The CHAIRMAN invited comments on the draft resolution (E/L.73) submitted jointly by the Chilean and United States delegations for discussion under items 4 and 6 of the agenda, in so far as it concerned item 6, that was, on the whole draft resolution with the exception of recommendations 2(b), (c), (d), (e) and (f), and also on the amendments to that joint draft resolution proposed by the Peruvian delegation (E/AC.6/L.8).

Mr. LUBIN (United States of America) introduced the joint draft resolution presented by the Chilean and his own delegations, briefly explaining its salient features.

Mr. ENCINAS (Peru) said that the object of the first amendment proposed by his delegation was to make sub-paragraph (d), following the word "Recognising",

relate to all forms of unemployment, not merely to disguised unemployment, and to unemployment in all sectors of the economy of under-developed countries, not merely in the agricultural sector. The object of the second amendment was simply to make it clear that recommendation 1 (a), as well as recommendations 1 (b) and (c), concerned the economic development of under-developed countries.

Mr. LUBIN (United States of America) said that he was prepared to accept both the Peruvian amendments if they were also acceptable to the representative of Chile.

Mr. SCHNAKE-VERGARA (Chile) said that he accepted both the Peruvian amendments, since they would improve the text of the draft resolution.

Mr. MARTINEZ-OSTOS (Mexico) thought that the joint Chilean-United States draft resolution (E/L.73) should have been incorporated in draft resolution 7 of the Sub-Commission in such a way as to group together the recommendations addressed to the capital-exporting countries on the one hand, and those addressed to the capital-importing countries on the other. But if the Committee decided to adopt the recommendations in the joint draft resolution, the Mexican delegation would be obliged to make a reservation regarding paragraph 1 (a), which ought to make mention of bilateral agreements.

In paragraph 1 (b), he would like to see the word "non-discriminatory" added before the word "participation".

His delegation's amendments were in line with the policy consistently followed by Mexico, which considered not only that all measures designed to encourage flow of capital towards under-developed countries and areas should be bilateral, but that foreign private capital should be able to participate in the economic development of the under-developed countries, without discrimination either for or against it.

Mr. ADARKAR (India) said that, although it appeared that in substance the joint draft resolution as a whole was acceptable to the Committee, he wished to point out that it was not sufficiently general to serve as a preface to all

the other draft resolutions before the Council on item 6 of the Agenda; nor was it sufficiently detailed to cover the whole range of that item. It overlapped several of the related draft resolutions which had already been discussed by the Council. Sub-paragraph (a), following the word "Recognizing", was covered by the draft resolutions submitted by the Sub-Commission as a whole; sub-paragraph (b) by that body's draft resolution 1A on domestic financing; sub-paragraph (c) by Sub-paragraph 3 of the operative section of the draft resolution submitted by the Chilean delegation (E/1757); sub-paragraph (d) by other draft resolutions on full employment; and sub-paragraph (e) again by the Chilean draft resolution. Recommendation 1 (a) was also covered by the Chilean draft resolution, recommendation 1 (b) by draft resolution 7 submitted by the Sub-Commission, recommendation 1 (c) by the United Kingdom draft resolution on full employment (E/L.67), and recommendation 2 (a) by every one of the draft resolutions submitted on item 6 of the Agenda. He would therefore suggest that the joint draft resolution be re-cast in a form which would enable it to serve as an introductory resolution to all the other resolutions on item 6.

The CHAIRMAN remarked that the delegations which had submitted the draft resolution, like himself, no doubt expected that the drafting committee would re-draft all the resolutions on the item so as to eliminate all overlapping, of which there was admittedly a great deal.

Mr. ARNOLD SMITH (Canada) said that before the drafting committee undertook the very necessary work mentioned by the Chairman, he wished to suggest that the wording "Recommends that all governments consider the adoption of appropriate domestic measures and international agreements ..." was greatly preferable to the wording of recommendation 1(a) in the joint draft resolution, "Recommends that all governments promote domestic measures and international agreements ...", since if the latter version was allowed to stand Governments would not know exactly what it was they were required to do. He would also suggest the insertion of the words "if necessary" before the words "bilateral or multilateral agreements" in recommendation 1 (b), since he did not believe that such inter-governmental agreements were in all cases essential to the

investment of foreign private capital.

Mr. FLEMING (United Kingdom) said that his views on the joint draft resolution were close to those expressed by the Indian representative. Recommendations 1 (a), (b) and (c) were so mild that they scarcely suggested any action which was not already being taken. He did not disagree with recommendation 1 (a), but considered that recommendation 6 in the United Kingdom draft resolution on full employment, which expressed the same principles, would prove much more effective. However, he agreed that the adoption of recommendation 1 (b) would be preferable to an attempt to draft a detailed investment code, which would probably not encourage private investment at all. The suggestion of the Mexican representative concerning non-discrimination, and his statement that it was wrong to give preferential treatment to foreign capital, was scarcely germane to the need for promoting increased international investment; for although it was a fact that in several countries there was a tendency to treat all capitalists somewhat roughly, a mere assurance that there would be no discrimination in those countries as between national and foreign private investors would not in itself attract private foreign capital. No country was likely to attract the capital of foreign capitalists, whom it could not compel, as it could its own nationals, to invest money there, unless they were provided with some guarantee, which need not necessarily be in writing. Simply a climate favourable to foreign investment might prove sufficient. Recommendation 1 (c) was unexceptionable in itself, but was typical of the general recommendations often made by international organizations, which, while doing no good themselves, distracted attention from more specific recommendations.

Mr. MARTINEZ-OSTOS (Mexico) found the Canadian proposal to add the words "if necessary" before the words "bilateral or multilateral agreements" acceptable. His reservation concerning paragraph 1 (b) was based on the principle of non-discrimination, a principle that should also be practised. He was definitely opposed to the de facto discrimination defended by the United Kingdom representative, since where rough treatment was meted out to foreign capital, it was meted out equally to domestic capital; such countries, if they expected

to develop their resources, should improve their legislation to give substantial guarantees to domestic and foreign investment alike.

He therefore withdrew his proposal to add the word "non-discriminatory", provided the Canadian proposal concerning bilateral or multilateral agreements was accepted.

Mr. SCHNAKE-VERGARA (Chile) said that the Chilean and United States delegations would not have submitted their joint draft resolution had agreement been reached on those parts of the other draft resolutions submitted for discussion under item 6 which, as the representative of India had correctly pointed out, in sum covered the ground dealt with in the joint draft resolution. His delegation wanted the Council at least to establish the need for goodwill as a pre-requisite for ensuring a larger and more stable flow of foreign capital to under-developed countries. It was true that the United Kingdom delegation had suggested in section 6 of its draft resolution on full employment a method of trying to ensure such a flow, but he doubted whether all members of the Council would find that method acceptable, whereas he trusted that all would be able to agree to a recommendation as general as recommendation 1(a) of the joint draft resolution.

In reply to the representative of India, he would say that although it would be ideal for the Committee to submit to the Council a single comprehensive draft resolution on item 6, it should appreciate the dangers inherent in trying to agree too hastily on the terms of such a single draft resolution. The considerands of the joint draft resolution were similar to, but not identical with, certain considerands of the other draft resolutions before the Committee. However, he agreed that it might be found advisable to re-cast the joint draft resolution in the way proposed by the Indian representative.

He was glad that the representative of Mexico had withdrawn his amendment to the joint draft resolution, since its adoption would have restricted the scope of recommendation 1 (b). He accepted the amendments proposed by the representative of Canada.

Mr. QURESHI (Pakistan) said that he himself had intended to submit a draft resolution on item 6 of the Agenda, but had refrained from doing so in view of the large number before the Committee. The debate had shown that there was no difference of opinion on the substance of the problem. He hoped that, to avoid confusion, members of the delegations most concerned would meet, either informally or in a drafting committee, to prepare a single comprehensive draft resolution on item 6 for the Committee's consideration.

Mr. MARTINEZ-OSTOS (Mexico) stated that the withdrawal of his amendment proposing the addition of the word "non-discriminatory" should by no means be interpreted as indicating a change in his country's policy that foreign private capital should participate in the development of Mexico on a non-discriminatory basis in respect of domestic private capital.

The CHAIRMAN invited the representative of the United Kingdom to speak on section 8 of the United Kingdom draft resolution on full employment (E/L.67).

Mr. FLEMING (United Kingdom) said that the practice of tied lending, that was, of countries granting loans on condition that the proceeds of the loans were spent on the goods and services of the lending country or, at least, those of a restricted group of countries, was a discriminatory practice, since the borrowing countries were thus induced to discriminate in their import policy in favour of the lending countries, although they might be able to obtain goods more cheaply and conveniently from other sources. Tied lending was much more characteristic of Government than of private loans, although one of the most encouraging features of the European Recovery Programme was the provision for off-shore purchases, that was, for loans or grants for the purpose of making purchases in countries other than the lending country. The question of untied lending would become increasingly important, since a larger proportion of total international lending would consist of government lending or lending under government guarantee, and since triangular trade must play an important part in any correction of the present disequilibrium in world trade. The sterling area might

reasonably expect to balance its trade bilaterally with the United States of America within the next few years, but there were several areas, such as western Germany, which could not hope to do so, although they might be able to cover their dollar expenditure if the money lent by the United States of America for the development of under-developed areas were spent on the products of western Germany and other areas of Europe, or alternatively on the products of the United Kingdom, in such a way as to enable that country in turn to meet a deficit in its trade with continental Europe.

That was one reason why the United Kingdom delegation had included section 8 in its draft resolution. Another reason was its belief that, although the principle of untied lending was recognised academically as one of the norms of international good behaviour, it had not yet been embodied as such in any international instrument.

The United Kingdom recommendation that governments should "extend progressively" the principle of untied lending related to the fact that most government-controlled or government-guaranteed international lending was conducted by institutions whose purpose was to increase the export trade of the lending country concerned. The United Kingdom Government did not wish to recommend that those institutions should be scrapped, but merely to suggest that their statutes should be extended, or that new institutions should be set up to provide specifically for untied government or government-guaranteed international lending.

The section contained a waiver clause applicable to countries with low reserves, since it sometimes happened that such countries could make governmental loans only on condition that the money was not spent in hard currency countries. But, despite that clause, the section as a whole applied to such countries, because it was their duty to try to solve their balance of payments difficulties, and the section would constitute an appeal to them to observe the principle of non-tied lending to the extent that their success in solving their balance of payments difficulties allowed.

Mr. LUBIN (United States of America) said that although he was anxious that restrictions on world trade should be lifted, he had doubts about section 8

of the United Kingdom draft resolution, for it contained no provision for anybody other than the government concerned to determine whether a country's monetary reserves were in such a state that it could make untied loans. If the paragraph were adopted as it stood, it would in effect lay an obligation only on the one country in the world which could make large untied loans without endangering its reserves.

The principle of untied lending had in fact been embodied in an international instrument; Article III, section 5, of the Articles of Agreement of the International Bank for Reconstruction and Development contained the clause "The Bank shall impose no conditions that the proceeds of a loan shall be spent in the territories of any particular member or members."

Mr. FLEMING (United Kingdom) said that in the General Agreement on Trade and Tariffs there was provision for international machinery for judging a contracting party's opinion of its balance of payments position. Section 8 of the United Kingdom draft resolution did not apply only to the United States of America, because there were other countries which could afford completely to untie their foreign loans, and because, as he had already explained, other countries which could not afford to do so could and should make loans which, though not completely untied, were not limited exclusively to the purchase of the services and products of the lending country.

The CHAIRMAN suggested that the time had come to refer item 6 to the drafting committee, and expressed the hope that before the Committee met again the former would examine means of co-ordinating suggestions relating to item 4 of the agenda (organization of the Economic and Employment Commission and its two Sub-Commissions), even though the Committee itself had not yet discussed it.

The meeting rose at 1.20 p.m.