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PRESENT:

Chairman:	Mr. VARELA	(Panama)
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	Mr. GELBER) Mr. HOUZER) Mr. MacLAREN) Mr. WILSON)	Canada
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	Mr. LAVALLE VALDEZ	Guatemala
	Mr. SHOURIE) Mr. CHADHA)	India
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	Mr. ZAMORA) Mr. MEJIA)	Mexico
	Mr. HADDAOUI	Morocco
	Mr. QURESHI) Mr. NAIK)	Pakistan
	Mrs. LEFEVRE de WIRS	Panama
	Mr. ENCINAS del PANDO) Mr. MARCHAND STENS) Mr. SOLARI SWAYNE) Mr. de RIVERO BARRETO)	Peru
	Mr. BRILLANTES	Philippines
	Mr. GRIGORESCO) Mr. COSAK)	Romania

Members (cont'd)

Mr. BROWNE	Sierra Leone
Mr. FORSHELL) Mr. SVENNEVIG)	Sweden
Mr. CUHRUK) Mr. AKSIN)	Turkey
Mr. V.A. SMIRNOV) Mr. KOLLONTAI) Mr. J. SMIRNOV)	Union of Soviet Socialist Republics
Mr. MARK) Mr. HAYES)	United Kingdom of Great Britain and Northern Ireland
Mr. BIRCH) Mr. NICHOLS)	United States of America
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Mr. IKEDA	Japan
Mr. WALRAVEN	Netherlands

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Mr. BEAL	Food and Agriculture Organization of the United Nations
Mr. PUTTEMANS	International Bank for Reconstruction and Development
Mr. WILLIAMS	International Monetary Fund
Mr. DAS GUPTA	Universal Postal Union

<u>Representative of the International Atomic Energy Agency</u>:

Mr. GASWAMI

<u>Representative of another United Nations body</u>:

Mr. LASSO de la VEGA	United Nations Conference on Trade and Development

<u>Secretariat</u>:

Mr. MOSAK	Deputy Under-Secretary for Economic and Social Affairs
Mr. LACHMANN	Chief, Fiscal and Financial Branch, Department of Economic and Social Affairs
Mr. KREPKOGORSKI	Secretary of the Committee

EXTERNAL FINANCING OF ECONOMIC DEVELOPMENT OF THE DEVELOPING COUNTRIES (item 5 of the Council agenda) (E/AC.6/L.370) (continued)

(a) INTERNATIONAL FLOW OF CAPITAL AND ASSISTANCE (E/4371 and Corr.1, E/4375 and Corr.1, E/4327-ST/ECA/98, E/4408; E/AC.6/L.372)

(b) PROMOTION OF PRIVATE FOREIGN INVESTMENT IN DEVELOPING COUNTRIES (E/4189 and Corr.1 and 2, E/4274 and Corr. 1 and Add.1-2, E/4293 and Corr.1, E/4408; E/AC.6/L.368 and Corr.1, E/AC.6/L.369, E/AC.6/L.371)

(c) OUTFLOW OF CAPITAL FROM THE DEVELOPING COUNTRIES (E/4374 and Add.1. E/4408)

Mr. CUHRUK (Turkey) said the Secretary-General's report on factors affecting the ability of developed countries to provide resources to the developing countries (E/4375 and Corr.1) showed that the flow of capital to developing countries had remained stationary in recent years, while there had been a deterioration in its terms. That fact, taken in conjunction with the expected increases in debt repayments in the coming years, made it urgently necessary to provide some kind of relief for the developing countries. The target of 1 per cent of the gross national product of the developed countries for the transfer of resources to developing countries had not been achieved; the actual figure was only 0.7 per cent. On the other hand, the receipts of the developed countries with market economies from debt repayments by the developing countries had been increasing at an average annual rate of 7 per cent, and was certain to rise still further. In addition, substantial sums were transferred from developing to developed countries in the form of profits and interest payments. For instance, in 1964 $5,000 million has been transferred to the developed countries with market economies, mainly as profits. Thus the net transfer of resources from the developing countries to the developed countries with market economies had averaged approximately $4,000 million a year from 1960 to 1965, or about half the amount of the assistance granted by those countries. The resources transferred by the countries with centrally planned economies had also shown a feeble rate of growth, and had under-gone wide fluctuations from year to year. In the circumstances, it was difficult for the developing countries to implement their development plans.

Whatever the reasons for that deteriorating situation - the balance of payments difficulties and budgetary problems of the developed countries, and the difficulties of the developing countries in gaining access to world capital markets - constructive measures could be adopted to improve it. In the Secretary-General's report it was recommended that new methods of dealing with balance of payments difficulties should be adopted which would not prejudice the attainment of the targets for the transfer of resources to the developing countries. In addition, it was suggested that countries with a favourable balance of payments should increase their transfers to developing countries, bearing in mind the fact that although such transfers represented an immediate drain on their resources, in the long run the outflow was balanced by a corresponding inflow. His delegation concurred in those views.

The aim in setting targets for the transfer of resources was, first, to encourage the developed countries to attain them, secondly, to provide yardsticks for measuring the results achieved, and thirdly, to make it easier to divide the burden equitably among the donor countries. However, a single target might not make it possible to gauge the actual impact of assistance on development or to obtain a clear picture of the true cost of assistance to the donor countries. Consequently, secondary targets should be fixed. If they were set in qualitative terms, they would prevent countries from attaining quantitative targets by granting assistance on unfavourable terms. Similarly, qualitative targets would be of assistance in evaluating and comparing the amounts of aid provided by different donor countries.

The Secretariat was to be congratulated on its report on the promotion of private foreign investment in developing countries (E/4293 and Corr.1 and Add.1), the conclusions and recommendations of which were of particular interest to the Turkish Government. In connexion with fiscal policy and foreign investment (E/4293, paras. 135 and 136) his Government had noted that despite considerable fluctuations the flow of foreign capital had remained at a high level and that investment in the manufacturing and service industries had tended to increase. Nevertheless, the volume of investment was far below requirements, and below the capacity of foreign investors to supply capital. Furthermore, the flow of private capital, which was attracted mainly to developed countries with large markets and a well-developed export trade, was very uneven.

The main obstacles to foreign investment in developing countries were the latter's organizational and institutional inadequacies and their fiscal policies and balance of payments difficulties. Productive foreign investment should not be discouraged by onerous tax burdens. Tax exemptions were a useful method of relieving such burdens; however, tax reliefs and tax exemptions must not be applied in isolation, but in conjunction with other measures designed to encourage both domestic and foreign investment. The investment guarantees given by some capital-exporting countries were useful because they helped to eliminate the element of non-commercial risk. The system of multilateral investment insurance which was being studied by the International Bank for Reconstruction and Development (IBRD) would also help to reduce such risks. The Secretary-General's conclusions and recommendations (ibid., section E) deserved careful consideration in the light of those considerations. His delegation supported the final recommendation in paragraph 154 that the Secretary-General should convoke a panel to consider the report and its recommendations.

Double taxation and international measures for its prevention were also matters of great interest to the Turkish Government. Foreign investments were usually taxed both in the country of origin and in the country of investment. However, the cost of the infrastructure without which such investment could not be profitable, had to be met by the recipient country. Furthermore, the foreign investor was averse to being taxed twice on the same profit. Many developing countries granted sizeable tax concessions to new industries, and also to foreign investment in those industries. Additional measures encouraging foreign investment were tax reductions on reinvestment, and rapid depreciation allowances. Since unilateral measures designed to eliminate the inconveniences arising from the application of two different sets of tax laws were inadequate, bilateral financial conventions were often signed. But although such conventions might suit the purposes of the developed countries with reciprocal investments, they were not suitable for countries at different stages of development; in such cases, the capital flow was in one direction only, and the tax relief granted by the developing country benefited not the investor but his Government. Consequently, developing countries were reluctant to become parties to such conventions. Although efforts had been made to render double taxation conventions less one-sided, a new type of convention was needed which would protect the interests of both the developed and the developing countries. His delegation strongly supported the recommendation on tax treaties made in paragraph 138 of the report on promotion of private foreign investment, to which the draft resolution it had co-sponsored (E/AC.6/L.371) was designed to give effect.

Tax reform planning was a most important question for the developing countries. As domestic savings were inadequate to finance the development plans of those countries, their Governments had to make up the balance out of taxation. For that reason tax reform was a crying need. The Turkish Government believed that tax reform and development were intimately linked, and had accordingly set up a tax reform commission. In order to ensure more equitable distribution of income, which was one of the aims of tax reform, means were being sought to reduce the share of indirect taxes in State revenue. Tax reform could also channel resources into productive areas where they could be used to the best advantage. The Secretariat was to be congratulated on taking the initiative in drafting a report on that important subject.

Mr. SHOURIE (India) said that the developed countries were not achieving the target of 1 per cent of their gross national product for the transfer of resources to developing countries, and the flow of international capital had been decreasing although the capacity of the developing countries to absorb capital had increased. Moreover, grants were being replaced by loans, and the terms on which loans were made were becoming more stringent. Aid was mainly tied to purchases in the donor countries, which made for the inefficient use of resources. However, only a minor part of the investment in the developing countries was being financed from abroad. Since the beginning of the United Nations Development Decade, the developed countries had invested only $41,000 million in aid to development, whereas the developing countries themselves had mobilized $125,000 million of their own resources, or 80 per cent of the total investment.

There had also been a very rapid increase in the debt-servicing burden on the developing countries: as the representative of IBRD had pointed out at the 1483rd plenary meeting of the Council, the external debt of the developing countries had continued to rise at an annual rate of about 16 per cent and the annual debt service at about 10 per cent or faster. By mid-1966, the developing countries had been paying in debt service and related payments more than half the amount they received in net loans and grants, and such payments were likely to offset the total inflow in about fifteen years. Debt servicing was a problem of deep concern to many countries; in some of them it absorbed more than 20 per cent of their national income, thus obliging them to reduce the inflow of foreign investment, with a resulting curtailment of their development plans. On the average, two-thirds of the flow to the developing countries consisted of official transfers, 90 per cent direct from country to country and 10 per cent through international institutions. The proportion of grants in official transfers had decreased from 50 per cent in 1962 and 1963 to 41 per cent in 1965, largely owing to the United States decision to change from grants to long-term low interest loans.

Very little had been done by the developed countries in recent years to channel their aid through international institutions or multilateral arrangements, but there had been small transfers of capital between the developing countries themselves through technical co-operation programmes and under the Colombo Plan. Half-way through the Development Decade, the United States proportion of the total flow had increased from 52 per cent (in 1961) to 58 per cent (in 1965). Lastly, in 1966 the credits granted by the countries with centrally planned economies had almost doubled the 1965 total, thus regaining the 1964 level, thanks mainly to Czechoslovakia and the USSR.

Against that background, he wished to make a number of comments. First, the international community should make a continuing commitment of aid to the developing countries through some such arrangement as an international convention. Second, the present year-to-year aid commitments were very sensitive to non-economic pressures. Third, there must be greater flexibility in the use of foreign aid, if the pattern of production and progress of the developing countries was not to be distorted. Fourth, in order to ensure the smooth implementation of development plans, assistance should be provided on a long-term basis. Fifth, aid should be extended in the form of grants and soft loans for periods of twenty to twenty-five years at low interest rates. Sixth, aid should not be tied to purchases in the supplying country, for that reduced the effectiveness of the aid supplied. Seventh, the flow of official aid to the developing countries was now governed by traditional ties between donors and recipients; for that reason, the distribution of aid as between geographical regions and groups of countries was uneven. Eighth, the flow of aid was uneven. Some fluctuations were unavoidable, since official aid was subject to annual appropriation and was often tied to specific projects, but they were regrettable, because fluctuations in the flow of capital produced fluctuations in the import receipts of the developing countries, with deleterious effects on their development programmes. Ninth, although project aid was good in principle, it had little flexibility, and it tied the aid to sources of supply regardless of the quality of the goods and services available there and the terms on which they were supplied. Tenth, the international community must improve the terms of loans, which were now a burden on the developing countries. The problem of debt servicing was most acute, for debt payments meant a slow exports growth. Eleventh, consideration must be given to the important problem of increasing aid and softening the terms on which it was extended. The Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD) had adopted a decision that in the future all loans should be made for periods of not less than twenty-five years, at a maximum interest rate of 3 per cent and with a seven-year grace period. Those terms were not generous, but the bare minimum.

The Secretariat was to be congratulated on its report on the promotion of private foreign investment in developing countries, which highlighted the importance of private capital in development. He welcomed the action the Secretary-General had taken to stimulate the flow of such capital to the developing countries.

In connexion with the flow of external resources to developing countries, he had two questions to ask about the implementation of Economic and Social Council resolution 1183 (XLI). First, he would like to know whether any study had been made of the extent to which the developed countries had complied with operative paragraph 3(b) (ii) of that resolution, regarding the easing of the terms of their assistance. Secondly, had the study of the feasibility of setting up an advisory service, called for in operative paragraph 5(a) of the same resolution, ever been made?

He welcomed the Secretary-General's initiative in proposing a study on tax reform planning. A development-oriented tax structure would certainly stimulate savings. Such studies and a meeting of high-level tax officials could lead to useful reforms aimed at integrating tax measures with the objectives of development. India had been alive to the continuing need for a study of the tax structure from the time of its first five-year plan. There had been three tax inquiry bodies, the last of which would make its final report before the end of 1967. All had been concerned with adapting taxation to meet development needs.

There must be a change in the attitude: development must no longer be considered a charity. On the contrary, developed and developing countries must realize that they were partners in a tremendous task which imposed obligations on both of them. The developing countries must mobilize their own resources, introduce a development-oriented tax structure, increase their exports to meet their debt payments and servicing obligations, and create conditions to attract foreign capital. The developed countries must increase the flow of aid to achieve the 1 per cent target, provide aid on easier terms, ensure that aid was provided on a continuing and long-term basis, simplify their procedures, cease tying aid to purchases, and keep the problems of debt servicing under constant review. If both sides respected their obligations, the partnership could not fail to produce fruitful results.

Mr. MARTIN-WITKOWSKI (France) referring to the decline in the flow of external capital to the developing countries, said the Secretariat's report showed that bilateralism was still the most effective basis for the large-scale transfer of resources to the developing countries, for which the continuity of assistance was as important as its volume. He was glad to note that in dealing with the factors affecting the ability of developed countries to provide resources to the developing countries the report gave due attention to the part played by the budgetary problems of the donor countries. It emphasized an important aspect of those problems which tended to be overlooked in international organizations and went far beyong the purely administrative and financial considerations which they were supposed to reflect. The report rightly pointed out that to parliamentary representatives selected on a regional or local basis, international issues not concerned with peace and war did not always seem important, and that the main responsibility for convincing public opinion of the importance of foreign aid rested with Governments. But the latter were themselves subject to political constraints, and in taking decisions on external assistance had to consider the interests of the sections of the electorate on whose support they depended. Foreign aid was particularly vulnerable when a policy of austerity became necessary. It was difficult to justify to the public on foreign policy and humanitarian grounds when the tightness of capital markets weakened the economic motive for transfers to developing countries.

Commending the cautious approach adopted in the progress report on the outflow of capital from the developing countries (E/4374 and Add.1) he said that there was a tendency, in view of the developing countries' shortage of funds, to consider any outflow of capital as harmful and any inflow as a contribution to internal economic progress. There was clear evidence, however, that external capital ill-suited to its purpose or invested in ill-conceived projects could be harmful, or at least unproductive, while certain transfers of profits could encourage useful activities and promote further capital inflow. The term "capital outflow" included a number of widely differing elements, which should be considered separately and which in turn reflected economic realities, business and international relations. Consequently any measures to influence the capital outflow should be taken with caution. While the developing countries' burden of debt servicing could not be allowed to continue to grow at the present rate, attempts to solve the problem by drastic unilateral measures or rigid institutional arrangements of a general nature could harm the international credit sturucture. A developing country which failed to control foreign capital invested in its territory thereby renounced part of its sovereignty and failed in its responsibility for economic policy. On the other hand, it could not expect to attract private capital without guaranteeing certain minimum advantages. In the case of domestic capital outflow, similarly the authorities concerned must distinguish between normal transactions and the actual flight of capital not only from the country but from the law.

He disputed the statement on page 25 of the progress report (E/4374) that the "errors and omissions" credit of $0.9 billion in 1960, $1.6 billion in 1961 and $2 billion in 1962 in France's balance of payments indicated an inflow of unregistered capital, allegedly from Algeria. His Government did not accept that interpretation of the figures for France, which was given in the Balance of Payments Yearbook of the International Monetary Fund (IMF). The receipts included in the "errors and omissions" column to a large extent related to operations entirely unconnected with capital transfers. He would submit his comments on the subject to the Secretariat in writing so that they could be taken into account in subsequent studies on the reverse flow of capital.

Referring to the promotion of foreign private investment in the developing countries, he said that although such measures as multilateral investment insurance could under certain conditions encourage the flow of private capital, no national or multilateral system of guarantees could take the place of confidence, which was the decisive factor in all foreign private investment. A survey compiled by IBRD in 1962 on the basis of replies to questionnaires had not indicated that the existence of a system of guarantees was a determining factor in investors' decisions. In his opinion, what was needed to stimulate the flow of private capital to the developing countries was the recipient countries' observance of a code of good conduct, and the effective protection of foreign investment, especially with regard to transfers. But although he did not attach undue importance to legal systems of guarantee, certain aspects of the question were of interest. France had in recent months taken action to facilitate French investments in the developing countries, notably in the form of guarantees for capital goods exports, Treasury guarantees for loans contracted in the French capital market for the establishment of commercial undertakings abroad, and rediscounting by the Bank of France of medium-term bank loans intended for investment abroad. Two recent decrees instituted a new system of insurance guaranteeing exporters against political risks and capital transfer difficulties.

Mr. de RIVERO BARRETO (Peru) said his Government believed that the best way of promoting private investment in developing countries was in accordance with Recommendation A.IV.12 of the United Nations Conference on Trade and Development, which in many respects summed up the conclusions of the Secretariat report on promotion of private foreign investment. As the report showed, there was sometimes a conflict of interests between the economy of the developing country and the foreign investor. The Economic and Social Council should therefore continue its efforts to identify those conflicting interests and try to reconcile them in such a way as to ensure that foreign capital was attracted to the developing countries without obliging the latter to offer in return greater privileges than were provided for in their laws and constitutions. Since it was the general practice to class foreign private investment with assistance, it would be useful if the United Nations could indicate what should be the minimum conditions under which the donor countries could regard foreign private investment as a form of assistance for economic development. He thought those conditions might be, first, that the investment was to go to sectors essential to the country's development; secondly, that the foreign firms received the same treatment as national firms before the law; and lastly, that the profits from such foreign investments were reinvested in the developing country. The United Nations should continue to promote the flow of foreign private investment to the developing countries on that basis. He supported the programme of action proposed in the report, and hoped that the Council, in consultation with the organizations concerned, would convene a working group of representatives of Governments, international organizations and investors to study the promotion of private foreign investment in developing countries.

Turning to the question of capital outflow from the developing countries, and citing some of the figures given in the report on that subject, he said that debt repayments by the Latin-American countries were increasing more rapidly than the inflow of loans, largely cancelling out the benefits the latter conferred. Peru suffered gravely in that respect; despite the diversification and expansion of its foreign trade its balance of payments situation had deteriorated, compelling it to resort to IMF loans.

He therefore emphasized the need for effective financial assistance which would enable the developing countries to increase their exports of manufactured and semi-manufactured goods and thereby alleviate their balance of payments difficulties; the loans could then be repaid in the foreign exchange earned by the exports. He hoped that the Council would urge the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP) and the United Nations Industrial Development Organization (UNIDO) to make special efforts in that direction; a non-discriminatory general preference system for the manufactured and semi-manufactured products of the developing countries could perhaps be negotiated at the second session of the United Nations Conference on Trade and Development. He suggested that the studies on external financing of economic development of the developing countries should be made available to help UNCTAD in its preparations for the second session.

Mr. J. SMIRNOV (Union of Soviet Socialist Republics) said that many of the economic difficulties of the developing countries were connected with financing. It was thus important that the developing countries should make more effective use of their own internal financing resources and should ultimately base their development on them. External capital should play only a supplementary role in economic and social progress, and should be provided on terms which did not impose undue burden on the recipient country or in any way encroach on its sovereignty. However, the terms imposed on the developing countries by the capitalist countries and international financing institutions supplying capital had deteriorated in recent years; high interest rates were being charged, and the borrowing countries had an increasingly heavy debt-servicing burden to bear.

The documents before the Committee on the subject contained some useful information, but were unsatisfactory in a number of respects. For instance, they gave particular prominence to the promotion of foreign private investment in the developing countries, which had been advocated as a panacea for the latter's economic problems for many years. But in point of fact the grave economic situation of the developing countries was largely due to the activities of foreign capital and of imperialist monopolies, which were trying to perpetuate economic colonialism under the guise of creating favourable conditions for private investment. Such foreign capital could be a danger to the developing countries, since its interests did not coincide with their own. Only if the developing countries established effective control, limited the expatriation of profits and enforced their national laws and a progressive system of taxation could foreign capital assist their economic growth.

As had been stated, if the position did not change the outflow of financial resources from the developing countries to the developed capitalist countries would by 1975 exceed the flow in the opposite direction. The Council should treat the situation as a matter of major concern; but the documents before the Committee did not deal satisfactorily with the problem. While recognizing that the reverse flow of capital from the developing to the developed countries was a matter of growing concern, the report on the Measurement of the Flow of Resources to Developing countries

(E/4327) submitted by the group of experts admitted that the reconciliation of recorded outflows with recorded inflows was not likely to be effected for some time to come, for many reasons. The real reason was the reluctance felt in some quarters to reveal the vast sums which the imperialist Powers and their monopolies continued to extort from developing countries in their attempt to incorporate them in a world-wide capitalist economic system. The figure of $4-5,000 million given in the report for the estimated outflow in the form of profits on foreign capital investment during 1964 was misleading; the true figure was much higher. The revenue which private monopolies were deriving from investment in the developing countries already exceeded new investment.

Moreover, foreign monopolies invested in the industries which would bring them the highest profits and would maintain the developing countries as economic appendages supplying agricultural products and raw materials. Thus, in 1965 United States investment in manufacturing industries in the developing countries had amounted to only 21 per cent of the total direct investment in those countries; in Asian countries the proportion had been 14 per cent and in African countries 3 per cent. By extracting vast profits from the developing countries the foreign monopolies deprived the latter of considerable financial resources which they could use to achieve economic independence, imposed a heavy balance of payments burden on them and virtually cancelled out the advantages of foreign capital investment. The developing countries should therefore adopt effective measures to limit the activities of foreign capital and the transfer of profits abroad.

The documents before the Committee outlined an extensive programme of research on such problems as export credit insurance and tax agreements acceptable to both developed and developing countries. While the importance of research could not be denied, the results of the current Development Decade showed that research and pious hopes alone were unlikely to produce constructive achievements. Practical measures were needed to strengthen international co-operation in the economic and social fields. For instance, the Council should adopt measures to implement the provisions of General Assembly resolution 1710 (XVI) to the effect that developing countries should receive an equitable share of the earnings accruing to foreign monopolies from their investments, thus giving those countries access to new sources of financing for economic and social development.

In view of the importance of internal sources of financing, the developing countries were largely dependent for their development on reasonable terms of trade. The continued deterioration of the terms of trade for most developing countries justified serious concern, and the Council should increase its efforts to normalize conditions of international trade within the framework of UNCTAD on the basis of the principles adopted with regard to international trade and trade policies likely to promote development.

The financing of the economic growth of the developing countries was also adversely affected by the armaments race and the growing international tension caused by United States aggression in Viet-Nam and Israel's aggression against the Arab countries.

Mr. GELBER (Canada) said that he had studied with interest the detailed technical report made by a group of experts on the measurement of the flow of resources to developing countries. However, there could be no detailed discussion of the technical issues involved and of the report's recommendations until Governments had had an opportunity to study the subject in much greater depth and detail. By any standard of measurement, recent trends in the volume and terms of aid had been disquieting. The flow of financial resources from the developed to the developing countries had failed to keep pace with the growth of the national incomes of the developed countries, even though most developing countries could immediately and effectively use a greater volume of external assistance. The adequacy of the flow of external assistance could not, of course, be judged solely in terms of volume; the composition and quality of assistance were of great significance. The relative size of resource flows, the terms on which aid was given, the proportion of loans and grants that were tied and questions of geographical and sectoral distribution all tended to influence the quality or effectiveness of aid. His country viewed with concern the fact that the terms of aid in the form of development loans had become harder, contributing to an alarming growth in the indebtedness and debt service obligations of a number of developing countries. In planning for Canada's programme of development assistance, his Government had been deeply conscious of the need for more aid and for aid on better terms. Last year almost 90 per cent of Canada's aid had been provided in the form of grants and development loans at interest rates of 3 per cent or less. Indeed, Canada's development loans were now for the most part interest-free, with a maturity-period of fifty years.

The major part of Canada's bilateral aid was given in the form of Canadian goods and services, but that was a matter of necessity rather than principle; a significant and growing proportion of Canadian aid was channelled through the multilateral agencies and was, of course, untied. In the case of bilateral aid, his Government was willing, indeed anxious, to modify its position in concert with fellow donor countries, particularly those whose economic influence in the world was so much greater than that of Canada. Meanwhile, his Government was doing its best to mitigate the possible adverse effects of tying aid. Procedures had been adopted to ensure that there was competitive bidding by Canadian exporters and that a sufficiently broad range of goods and services was made available to enable the recipient country to avoid those offered at disadvantageous prices. Another step which had been taken was to reduce the emphasis formerly placed on financing only the foreign exchange component of a project.

Before leaving the subject of development assistance, he wished to stress the importance his Government attached to the speedy replenishment of the resources of the International Development Association (IDA). He would support the draft resolution sponsored by India and Pakistan (E/AC.6/L.372).

Turning to the report on promotion of private foreign investment in developing countries, he said that his country was very conscious of the contribution which foreign investment had made to its economic growth. It was, however, a fact that the pattern of international private capital flow was largely determined by economic factors. The high rate of economic growth in the main industrial countries in recent years had provided an exceptional opportunity for profitable private investment and had undoubtedly diverted some private capital which might otherwise have been invested in the developing countries. Developing countries anxious to attract private investment must accordingly provide an appropriate climate for investment; certain measures which could be helpful in that connexion were mentioned in the report. The report made specific recommendations for action by both developed and developing countries, and a number of those recommendations had appeared in the form of draft resolutions. His delegation wished to reserve its position on those resolutions until it had had time to study them further. He wished to make one comment, however, on the proposal contained in the Dahomean draft resolution

(E/AC.6/L.369) that a selective panel of specialists from Governments, international agencies and investors should be convoked to review the recommendations made in the report. Before it could support the draft resolution, his delegation would like more information on the proposed terms of reference of the panel and the action it would be expected to take. Its preliminary view was that it might be somewhat premature to consider convening such a meeting until the various organs to which the Secretariat's report would be submitted had held discussions and reached conclusions.

Mr. NAIK (Pakistan) said that in the last twenty years the international community had learnt a great deal about economic development and had made some significant progress in that field. There was no doubt that these twenty years had seen the birth of a new kind of international co-operation, aimed at the economic development of the developing countries. In joining in that enterprise, the developed countries had assumed an implicit moral commitment to the development countries. While some of them, or at least their legislatures, were perhaps feeling increasingly restive in the face of that commitment, there were as yet no signs of a deliberate retreat from it. At the same time, however, there were no signs of any effort to accept its full implications. Nevertheless, the acceptance of such a commitment by the developed nations and the international struggle against poverty were significant achievements of the post-war period.

In the past few years some very disquieting features had appeared in the field of development. The most disturbing of them was the fact that the rate of growth of the developing world as a whole during the period 1960-1965 had failed to reach the minimum target of 5 per cent per annum set by the United Nations for the Development Decade. Only a few countries, of which Pakistan was fortunate enough to be one, had exceeded that target; in many of the rest, the growth rate in the first half of the present Decade had been slower than recorded for the preceding five years. A natural consequence of that situation had been that the gap between the rich and the poor nations had widened still further.

The second feature was the stagnation of the flow of foreign assistance from the developed to the developing countries. Over the last six years the level of foreign assistance had remained static at around $6 billion. In 1961, foreign aasistance had constituted 0.8 per cent of the gross domestic product of the donor countries. Under the United Nations Development Decade it had been contemplated that the ratio should be increased to at least 1 per cent; in fact, it had dropped to 0.6 per cent by 1965, which, in view of the growth of the economies of the developed countries, meant that the sacrifice they were making had been reduced. At the same time, the number of recipient countries had increased. Moreover, the prices of machinery and manufactured goods had been rising, so that the real assistance received by the developing countries had in fact declined.

The third disturbing feature was the gradual hardening of the terms of external assistance. Grants, which in 1961 had constituted about 40 per cent of total official assistance, had been replaced by loans repayable in foreign currency, and most assistance was tied to projects or sources of procurement. Some countries such as Canada and the United Kingdom, had recognized the problem and had moved towards softening the terms of their assistance. In general, however, terms had become harder, prices of tied aid were higher, and procedures were more difficult. The result was that the debt burden of the developing countries had increased from $10,000 million in 1956 to $40,000 million in 1965 and the annual debt service charge had increased from $800 million to $3,500 million over the same period. In other words, 50 percent of the total aid was now flowing back to the donor countries. The rate of increase of service charges, about 12 per cent per annum, was far above the rate of growth of export earnings, so that the ratio of debt service to exports had risen from 4 per cent in the mid-nineteen-fifties to 14 per cent in 1965. It was now widely appreciated that unless something was done quickly to reverse that trend the debt explosion might prove as serious as the population explosion.

The fourth feature was a problem of a more fundamental nature which had been dealt with by his delegation in the plenary meeting: it was that people were growing weary of the idea of aid and that there was a certain disillusionment in the donor countries over the slow pace at which development was taking place despite foreign aid.

The fifth feature was the export situation of the developing countries. Everybody seemed agreed in principle that without vastly increased opportunities for exports the developing countries would be unable to solve the problem of finding additional foreign exchange resources for their development, but very little had in fact been done to approach that objective by eliminating the quota and tariff barriers which excluded the developing countries' exports from world markets.

The somewhat depressing problems he had mentioned were balanced, but only partly, by some favourable features of the current situation. Continued progress in science and technology had provided powerful instruments for the elimination of hunger, poverty, ignorance and disease at a much faster rate than ever before; programmes and measures for the control of population had received international attention, and there were growing prospects for their success in several countries. Moreover, the capacity of the developing countries to shoulder their own responsibilities in the development process by mobilizing larger domestic resources, adopting sound policies and making effective use of foreign assistance had in many instances been improving.

Pakistan felt, however, that the problems raised by development were outstripping the combined efforts of the developed and the developing countries. If aid was to be effective, the developed countries must direct to the developing countries a much greater flow of their nationals and skills. They must provide more of their aid on easier terms, and they must open their markets much wider to the goods of the developing countries. Pakistan had made steady progress in the last seven years, and was now entering on a crucial stage in the implementation of its third Five-Year Plan. It would need continued support from friendly countries if it was to attain its objective of providing a decent life for its people.

The CHAIRMAN requested the Secretariat to explain the financial implications of the recommendations contained in the documents before the Committee.

Mr. LACHMANN (Secretariat) said that the financial implications of the request in operative paragraph 1 of the Pakistan draft resolution (E/AC.6/L.368) were set out in document E/4274/Add.2. With regard to the Dahomean draft resolution (E/AC.6/L.369), the document containing the financial implications of the request in operative paragraph 2(a) was not yet available, but the sum involved would be approximately $33,000. The financial implications of the second Dahomean draft resolution (E/AC.6/L.370) were set out in document E/4366/Add.1. He had noted the United States delegation's suggestion that much of the cost of country studies might be financed under the regular technical assistance programme. Every effort would be made to implement that suggestion; the estimated cost might then be reduced to about $21,000. With regard to the draft resolution sponsored by Libya, Pakistan, the Philippines and Turkey (E/AC.6/L.371), the financial implications of setting up an ad hoc working group of tax administrators and experts were set out in E/4293/Add.1.

UNITED NATIONS DEVELOPMENT DECADE (item 3 of the Council agenda) (E/4362, E/4376; E/AC.6/L.366/Rev.1) (continued)

Mr. ENCINAS del PANDO (Peru) introducing the revised draft resolution sponsored by Dahomey, Pakistan, Peru and Venezuela (E/AC.6/L.366/Rev.1), said that a sentence at the end of the second preambular paragraph of the original draft resolution had been deleted. A slight drafting change had been made in the fourth preambular paragraph. The eighth preambular paragraph had been deleted. Operative paragraph 1 now asked for a feasibility report to be submitted to the Council and not to the General Assembly; the Council was in any case the more appropriate body, and the new procedure would give the Secretary-General more time to prepare his report. A number of additional minor changes in the draft resolution were still under discussion. They concerned, among other things, the fifth preambular paragraph, in which some delegations felt that the use of the word "conference" might create difficulties. The sponsors were prepared to use the term "meeting" instead of "conference" throughout the draft resolution.

Mr. GELBER (Canada) observed that his delegation had expressed some reservations on the question of the feasibility study requested in operative paragraph 1 of the draft resolution. However, in the light of the Peruvian representative's remarks, he proposed that consideration of the draft resolution should be postponed until the following meeting.

Mr. CHADHA (India) supported the proposal.

It was so decided.

The meeting rose at 1.10 p.m.