UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

Distr.
GENERAL

E/AC.6/SR.428
13 September 1967

Original: ENGLISH

Forty-third session

ECONOMIC COMMITTEE

SUMMARY RECORD OF THE FOUR HUNDRED AND TWENTY-EIGHTH MEETING

held at the Palais des Nations, Geneva,
on Monday, 31 July 1967, at 3.20 p.m.

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PRESENT:

Chairman:	Mr. VARELA	(Panama)
Members:	Mr. FORTHOMME Mr. DARON	Belgium
	Mr. MA'A BITOMO	Cameroon
	Mr. GELBER Mr. WILSON	Canada
	Mr. STAHL Mr. BERDYCH	Czechoslovakia
	Mr. de SOUZA	Dahomey
	Mr. MARTIN-WITKOWSKI Mr. JOSPIN	France
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	Mr. LAVALLE VALDEZ	Guatemala
	Mr. SHOURIE Mr. CHADHA	India
	Mr. NADIM	Iran
	Mr. AL-MUTAIR	Kuwait
	Mr. SHERIF	Libya
	Mr. ZAMORA Mr. MEJIA	Mexico
	Mr. HADDAOUI	Morocco
	Mr. QURESHI Mr. NAIK	Pakistan
	Mrs. LEFEVRE de WIRS	Panama
	Mr. ENCINAS del PANDO Mr. de RIVERO BARRETO	Peru
	Mr. BRILLANTES	Philippines
	Mr. GRIGORESCO	Romania
	Mr. BROWNE	Sierra Leone
	Mr. FORSHELL	Sweden
	Mr. CUHRUK Mr. AKSOY	Turkey
	Mr. KOLLONTAI	Union of Soviet Socialist Republics

Mr. MARK) Mr. HAYES) Mr. KITCHING)	United Kingdom of Great Britain and Northern Ireland
Mr. BIRCH) Mr. NICHOLS)	United States of America
Mr. FIGUEREDO PLANCHART	Venezuela

Observer for a Member State:

Mr. NOGUEIRA Jr.	Brazil

Observers for non-Member States:

Mr. OLTMANN) Mr. HERRMANN)	Federal Republic of Germany
Mr. ANDINA	Switzerland

Representatives of specialized agencies:

Mr. THORMANN	International Labour Organisation
Mr. LAMARTINE YATES	Food and Agriculture Organization of the United Nations
Mr. PUTTEMANS	International Bank for Reconstruction and Development

Representative of a non-governmental organization:

Category A:

Mr. PIETRYGA	International Federation of Christian Trade Unions

Secretariat:

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

EXPRESSION OF SYMPATHY ON THE OCCASION OF THE EARTHQUAKE IN VENEZUELA

The CHAIRMAN said he was sure that all members of the Committee would wish to express to the representative of Venezuela their grief at the recent disaster which had occurred in his country, with heavy loss of life, particularly in Caracas, the capital. He asked the representative to convey the deep sympathy of the Committee to his Government and people.

Mr. FIGUEREDO PLANCHART (Venezuela) thanked the Chairman and the members of the Committee for their sympathy in the disaster which had befallen his country.

UNITED NATIONS DEVELOPMENT DECADE (item 3 of the Council agenda) (E/4362 and Corr.1 and Add.1, E/4376; E/AC.6/L.366, E/AC.6/L.367) (continued)

The CHAIRMAN reminded the Committee of the discussion that had taken place at the previous meeting on the fifth preambular paragraph of draft resolution E/AC.6/L.367; he suggested that, in accordance with the proposal made by the Philippine delegation and accepted by the Indian delegation, that paragraph should be deleted.

It was so decided.

The CHAIRMAN put to the Committee the proposal made by the Indian delegation at the previous meeting to replace the word "second" in operative paragraphs 2 and 4 by the words "period following the present".

The Indian proposal was adopted.

Mr. KREPKOGORSKI (Secretary of the Committee) said that the fourth preambular paragraph, as amended by the Cameroonian delegation at the previous meeting, would read as follows:

> "Recalling further that the economies of developing countries should be better equipped than they were in order to overcome the obstacles that existed at the beginning of the present Development Decade."

The fourth preambular paragraph, as amended by the Cameroonian delegation, was adopted.

The CHAIRMAN reminded the Committee that, at the previous meeting, both the French delegation and the Pakistan delegations had proposed that the words "and taking into account the discussions which took place in the Committee on this subject" should be inserted in the draft resolution. The French delegation had proposed that those words should be added at the end of operative paragraph 4, while the Pakistan delegation considered that they should form an additional preambular paragraph.

After a brief procedural discussion with Mr. QURESHI (Pakistan) and Mr. MARTIN-WITOWSKI (France), the CHAIRMAN said that since the two amendments were identical in substance, rule 66 of the rules of procedure would apply. He would therefore put to the vote first the French proposal, which had been submitted first.

The French proposal was adopted by 15 votes to 3, with 5 abstentions.

Mr. KREPKOGORSKI (Secretary of the Committee), said that the Committee had before it two proposals for a new preambular paragraph. The USSR proposal read as follows:

> "Considering that the achievement and maintenance of world peace are of primary importance to the success of the United Nations Development Programmes."

The United States proposal read as follows:

> "Considering that the achievement and maintenance of world peace would contribute importantly to the success of the United Nations Development Programmes."

Mr. BRILLANTES (Philippines) suggested that, instead of choosing between the USSR text and the United States text, the Committee should reproduce in its draft resolution the second preambular paragraph of General Assembly resolution 1710(XVI).

After a brief discussion in which Mr. KOLLONTAI (Union of Soviet Socialist Republics), Mr. NICHOLS (United States of America), Mr. FORSHELL (Sweden), Mr. HAYES (United Kingdom), Mr. QURESHI (Pakistan), Mr. de SOUZA (Dahomey) and Mr. FORTHOMME (Belgium) took part, Mr. BRILLANTES (Philippines) announced that, since the United States delegation appeared willing to accept the USSR text, he was withdrawing his own proposal in favour of that text.

The USSR text was adopted.

Draft resolution E/AC.6/L.367, as a whole, as amended, was adopted unanimously.

Mr. GELBER (Canada) said that his delegation had voted in favour of draft resolution E/AC.6/L.367, as amended. As work on the framework for future international co-operation advanced, it was important to consider what goals should be set. It was to be hoped, however, that the question of targets would not be given so prominent a place in future international discussions of development questions as it had in the past. The vagueness of the simple quantitative targets set for the current Development Decade had often obscured, in the minds of those discussing them, the complex nature of the development process. The need for cautious realism in approaching the question was reflected in the report of the Committee for Development Planning (E/4362 and Corr.1 and Add.1), which stressed that a careful prior study should be made of the form and numerical value of any targets to be included in the proposed charter. His delegation noted with approval the emphasis laid by the Committee on the need for developing countries to increase agricultural production, introduce institutional improvements, mobilize domestic resources, introduce changes in social and economic structures and take other measures to increase the rate of growth of their per capita output. It was meaningless to talk of the implementation of development plans without at the same time adopting policies to govern social changes such as land reform and income distribution. Experience had shown that one of the ingredients for success was the political will to promote economic development; that will must be reflected in the national policies of developed and developing countries alike.

The CHAIRMAN invited the Committee to consider draft resolution E/AC.6/L.366, consideration of which had been adjourned at the 426th meeting.

Mr. GELBER (Canada) said that his delegation respected the motives of the sponsors of draft resolution E/AC.6/L.366 but was unable to support the proposals made in it. His delegation was convinced that new approaches and new ideas had already been suggested by the many regional and international conferences held on development in general or on particular problems of development; Canada doubted whether another conference of the kind envisaged in the draft resolution would do much to advance planning for the period following the Development Decade. It disagreed with the fifth preambular paragraph and saw no need for the preparation, as proposed in operative paragraph 1, of a report on the feasibility of such a conference. The main question for the Committee was the desirability of such a conference; in his delegation's view, it would add little to existing knowledge, and - probably - nothing to the willingness of Governments to do what was necessary to promote economic development.

The CHAIRMAN said that the sponsors wished to hold further consultations with a view to producing a text acceptable to all delegations. He therefore suggested that discussion of the draft resolution should be postponed.

It was so agreed.

EXTERNAL FINANCING OF ECONOMIC DEVELOPMENT OF THE DEVELOPING COUNTRIES (item 5 of the Council agenda):

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

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

(c) OUTFLOW OF CAPITAL FROM THE DEVELOPING COUNTRIES (E/4366 and Add.1, E/4374 and Corr.1 and Add.1, E/4408; E/AC.6/L.368, E/AC.6/L.369, E/AC.6/L.370)

Mr. FORTHOMME (Belgium) said that, according to the Secretary-General's report on the international flow of long-term capital and official donations, 1961-1966 (E/4371), the flow of funds to the developing countries had declined from 1965 to 1966, mainly owing to a decline in movements of private capital. In the first half of the United Nations Development Decade, two-thirds of the funds transferred from developed market-economy countries had been public funds; hence private transfers were of great importance to the future financing of economic development in the developing countries.

It was clear from the report entitled Export Credits and Development Financing (E/4274 and Corr.1 and Add.1 and 2) that export credits still had a major role to play. They were now regarded not only as a means of financing trade between developed and developing countries, but also as a means by which developed countries could co-operate in executing the development programmes of the developing countries.

Export credits included, besides suppliers' credits, two kinds of financial credits: firstly, those designed to finance current export operations, and secondly those known as buyers' credits or tied financial credits. The latter drew a distinction between the commercial function of the exporter and the financial function of the banks. The banks in the developed countries performed their function by granting credit directly to the purchaser to to a financing or development agency in the purchaser's country. Such credits were used to finance operations of considerable scope and duration (at least eight years), and were of increasing importance as a means of financing development projects. In his view the Committee should study that new method of financing.

The growing foreign indebtedness of a number of developing countries was a source of concern that was due to other forms of financing as well as to export credits; it was very difficult to suit the nature and terms of aid to the specific requirements of individual developing countries. It was necessary to take into account the economic and financial situation of the receiving country, the terms on which suppliers granted credit, the maturity of the country's debts and the nature of the projects to be financed. In principle, his delegation considered that export credits should be used only to finance projects which would show quick results in the balance of payments and in development. Such projects should, after a short period, earn at least the foreign currency necessary to repay the financing credit, either through new exports or as a result of import substitution. Projects which would take longer to produce results, such as infrastructure projects, should be financed by other methods such as donations or credits granted on special terms. However, even infrastructure projects financed by foreign public capital laid a burden on the budget and on the balance of payments; it was therefore necessary to examine such projects from the standpoint of their contribution to development, so as to ensure that they did not add to the problems of indebtedness. One method of evaluating development projects and programmes and of setting the necessary order of priority was to consult the advisory groups set up under the auspices of the International Bank for Reconstruction and Development (IBRD).

Seen in that light, suppliers' and financial credits might well be used as a means of financing alongside the basic financing provided by international bodies such as IBRD, particularly since the Bank was now financing industrialization projects. That arrangement had been applied to a project in a developing country member of the Committee, and his delegation considered that the Bank should apply it more widely; the arrangement was of particular interest to small countries like his own.

The risk of distorting trade patterns was bound up with the use of export credits on terms similar to those of assistance credits, and with the grant of public credits to help in financing the acquisition of capital goods. The provision of assistance credits on favourable terms from the standpoint of duration and charges often meant that the producer who submitted the best bid in terms of price, quality and delivery dates did not receive the order. Such distorted competition might become a source of concern in the near future to those developing countries which were building up the capacity to export capital goods. It would therefore be desirable to make a distinction between export credits and assistance credits proper. To that end, the developed countries should formulate export credit policies which would fit into their international aid programmes. The problem was pressing, but far from easy to solve.

Both the Organization for Economic Co-operation and Development (OECD) and the European Economic Community were trying to draw up common principles to govern the supply of all types of financial resources to the developing countries, including both private commercial transfers and aid out of public funds; it was to be hoped that their efforts would be successful. Steps were also being taken to standardize the terms on which risks were covered and credits financed; that would entail greater freedom in the movement of capital between developed countries and closer co-operation between their money markets. That called for further co-ordination of monetary and budgetary policies and the development of methods which would make it possible, in the absence of exchange restrictions and with a gradual reduction of other obstacles to capital investment, to exercise effective control over economic trends in the developed countries. For those reasons it would take time to standardize the terms on which credits were financed. It would be useful if the country studies on export credit insurance which appeared in part two of the report (E/4274/Add.1) could be kept up to date.

The summary and conclusions on the promotion of private foreign investment in developing countries (E/4293 and Corr.1), prepared by the Fiscal and Financial Branch, referred to two types of obstacles to the flow of private capital. First, there was a shortage of profitable projects likely to attract foreign investors; in some cases, such projects existed but received insufficient publicity. Governments and financial institutions in the developing and the industrialized countries had taken some steps to correct the situation. The new development banks, as well as international agencies, were also playing an important part in the discovery or initiation of such projects and in the establishment or expansion of enterprises. The International Finance Corporation (IFC) in particular could do a great deal by providin direct technical and financial aid and thus encouraging the private investor.

The second type of obstacle was the divergence of interests between the investor and the Governments of countries in which investments could be made. The report suggested that efforts should be made to find "bases of reconciliation" between Governments and investors. It was pointed out that the fear of expropriation, restrictions on transfers and other non-commercial risks were among the main obstacles to increased investment. To remove those obstacles, each country would have to decide for itself, in the light of its own requirements and political position, whether to reject foreign investments or to welcome them and, if so, on what terms. In reaching their decision, countries should bear in mind, firstly, that an investment, once made, would be retained as long, and only as long, as the investor considered it safe. Secondly, there was keen competition for available capital; investors consequently had a wide range of choice, and they inevitably sought the most remunerative and safest investments. For that reason, a Government seeking investment capital had to offer reasonably attractive conditions: not necessarily by treating foreign capital better than domestic capital, but by offering both the domestic and the foreign investor favourable conditions.

One way to reconcile the interests of investors and Governments would be to draw up a multilateral investment code. The efforts made along those lines had not been successful so far, but it was encouraging to note that more and more bilateral agreements were being concluded, taking into account conditions peculiar to each country and the relations between the contracting parties. To give investors maximum encouragement, such agreements were often supplemented by schemes for investment guarantee insurance in the capital-exporting countries. Belgium was now considering such a scheme, but in addition was keenly interested in the multilateral insurance project proposed in OECD and at present being studied by IBRD. That project would supplement the Convention for the Settlement of Investment Disputes between States and Nationals of Other States, which had entered into force on 14 October 1966.

From 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), it appeared, firstly, that the connexion between the balance-of-payments situation of countries providing assistance, on the one hand, and development financing requirements, on the other hand, was indirect; payments difficulties depended upon market conditions, whereas aid expenditure was of a structural nature. In order to mitigate the effects of foreign aid on the balance-of-payments, countries tied their aid to purchases in their territory. However, the question of tied aid was under discussion in the United Nations Conference on Trade and Development (UNCTAD). Secondly, the budgetary factor, which mainly affected State aid, played an important role in determining the aid policies of the Governments of most developed countries, most of which were at present practising austerity. The report mentioned various measures designed to reduce the fluctuations in aid which arose from variations in budgetary and financial policies. Such measures were, in his opinion, of only relative value. A national development fund, for example, would still depend on the Government's decisions.

The report also referred to the difficulties currently encountered by the developing countries and international financial institutions in floating loans in the developed countries. Access to those countries' money markets could be made much easier for the developing countries if the markets in question were strengthened and integrated to a greater extent, and if international capital flows in general could be liberalized.

Although the problems to which he had referred were important and, indeed were being carefully studied by the European Economic Community, it must be remembered that the amount of capital available on the money markets was not unlimited and had to cover the needs of both government and industry. The problem was further complicated by the restrictions placed upon development loans for reasons connected with the balance-of-payments. Those considerations also served to emphasize the difficulties of applying the Horowitz Plan, under which the Governments of the developed countries would undertake to provide funds if IBRD or the International Development Association (IDA) was unable to place its bonds in their markets. Various alternatives to the Horowitz Plan were discussed in the report, but were unacceptable because they might affect the credit of IBRD, with consequent adverse effects on the development of the less advanced countries.

Mr. MAMABITOMO (Cameroon) said that his delegation agreed with the conclusions reached by the Secretary-General in his reports on factors affecting the ability of the developed countries to provide resources to the developing countries and on the promotion of private foreign investment in developing countries.

He noted that discussions of the problems raised by external financing often tended to overlook some of the causes of disequilibrium in that field. One of the most important was a legacy from the past, namely, the monetary links which still governed relations between most of the developing countries and the former metropolitan countries. For example, some of the developed countries, in honouring their foreign obligations, were obliged to take decisions which had the effect of placing the developing countries in an extremely precarious position and had an adverse effect on their balance of payments. That was clear from paragraph 2 of document E/4375. It was therefore desirable that the United Nations should make a careful study of the monetary relationships resulting from colonization.

It would also be desirable for the developed countries to reach agreement on international liquidity, since divergent views tended to slow down the flow of capital towards the developing countries, which, in his view, should be associated in any major decision concerning international payments arrangements.

The usual method of evaluating the projects and requirements of the developing countries in terms of the currency of the developed countries and prices current in those countries tended to distort the results. If that, as well as similar problems, were tackled properly, solutions likely to bring about a redefinition of relationships between the developing and developed countries could be arrived at.

It was no exaggeration to say that loans were available to the developing countries on a "take it or leave it" basis. Investors should, however, display a sense of equity and if interest rates could not be revised, the developing countries receiving loans should at least be left free to purchase the goods they needed in markets where the price was most favourable. In short, investors should not expect to make money on the economic and financial fronts simultaneously.

Referring to the steps taken by his Government to attract investments, he said that it had drawn up an Investments Code which offered fiscal and financial incentives to investors, and that two years previously it had set up a National Investments Company to encourage domestic savings. Even that, however, was said to be insufficient, and his country was now being asked to conclude bilateral agreements with the Governments of countries in which investments originated. In short, it appeared extremely difficult to allay suspicions and the fear of political change. However, the facts would appear to belie such suspicions, since the Bulletin of the Central Bank of the Central African States indicated that foreign bank accounts were growing steadily. In that connexion, he thanked the representative of the International Chamber of Commerce who had drawn attention not only to the guarantees that should be offered to investors but also to their duties, in the interests of promoting better relations between private capital and the developing countries.

Cameroon would continue to co-operate with all countries, since it believed that true economic partnership with the wealthy countries would be in the interest of both.

In conclusion, he emphasized that foreign assistance could never replace the efforts of the developing countries themselves; that was why Cameroon had embarked upon the path of regional integration with its neighbours.

Mr. de SOUZA (Dahomey) said that, while the Secretariat was to be commended on the documents it had submitted, it was regrettable that the report of the group of experts on Measurement of the Flow of Resources to Developing Countries had been received so late. He urged that technical documents of that kind should be issued in good time in the future.

The most interesting of the documents now before the Committee was the report Export Credits and Development Financing. It would be helpful in reviewing the report if some information could be provided on the methods and sources used by the authors.

Financing involved three types of problem, the first being problems of interest, which comprised individual interests and group interests ranging from the family group to the national and international community; those interests sometimes conflicted.

The second type related to capital resources - material and financial. Capital resources did not result from gifts, nor did they develop automatically; they were the product of years of human labour. Many of the countries that were rich in capital resources had acquired them as a result of the work done by generations of people in other countries. The people of Africa and Asia had made a large contribution to the capital resources in Europe and the United States of America. The advanced capitalist countries should, therefore, be ready to help those countries in their development by providing them with capital at reasonable interest rates. At present that was largely left to private sources which demanded interest rates often amounting to usury. The third type of problem related to the provision of capital at the international level. Ways and means must be studied of easing the terms offered to the needy developing countries. They must be helped by the provision of export credits on terms which did not lead to balance of payments difficulties. Insurance too, must be provided at reasonable rates. He hoped that the Secretary-General would give some thought to the subject.

Another problem he wished to emphasize was fiscal planning, on which the Secretariat had prepared some valuable material. Such planning was one of the difficulties of the developing countries, since private concerns complained of excessive taxation. The question must be thoroughly examined to see whether their complaints were really justified. But that could be done only in the context of reforms in fiscal planning. All the developing countries had relatively rigid fiscal systems in order to ensure that there was no discrepancy between their plans and the resources available for their execution. He welcomed the Secretariat's action in inviting international organizations to draw up a plan and hoped that it would continue that work by a study on public expenditure. Collective expenditure was becoming an increasingly important subject, because certain services could only be provided collectively. A study was needed on the economic nature of public expenditure and on the relationship between collective and individual production and consumption.

Mr. BERDYCH (Czechoslovakia) said that a study of the valuable data prepared by the Secretariat had caused his delegation some concern, since the total estimates indicated that the net flow of financial resources from the economically advanced to the developing countries had been reduced to about half by reverse flows and had, moreover, been decreasing. A decline in the exports of the developing countries, for whatever reason, was liable to cause considerable difficulties in their balance of payments. The role of investment income in the total reverse flow from the developing countries needed no emphasis: it was one of the most serious and most difficult problems facing them. Once a developing country had agreed to accept private foreign investment, its national policy should be directed towards a substantial increase in the re-investment of profits in industrial development. That might alleviate the balance of payments deficit. The next stage should be action to limit the reverse flow of investment income. In that connexion, he emphasized the relationship between the use of internal and external resources in development. The problem was not a new one: many countries had learned from experience that the use of external financial resources should be accompanied by the development of internal economic resources in the productive sphere. Those facts were important because the availability of external resources was often conditioned by the capacity to absorb them. Thus, more attention should be given to the problems of internal resources in considering the financing of economic development. The proposed study of tax reform planning might be useful, but his delegation believed that the problem of internal resources was wider and more complicated.

With regard to the draft resolution on external financing of economic development of the developing countries (E/AC.6/L.370), the industrialization of the developing countries called for far-reaching changes in their economic structure and the mobilization of vast financial and material resources. Several decades would be needed for that purpose and external assistance would have to be sufficient to deal with all the problems. He agreed with statements made in the earlier discussions that action should be based on co-ordinated measures agreed upon between the advanced and the developing countries and with due regard for possibilities and requirements on both sides. That meant that account would be taken of the difference between methods of assistance in the socialist and in the market economy countries.

The moral responsibility for the provision of effective assistance rested primarily with the countries which had in the past used their position in what were now the developing countries for their own benefit. His own Government was doing its best to ensure that its policy of assistance to the developing countries was effective and geared to their requirements. Experience had shown that a useful method of assistance consisted of long-term treaty arrangements, covering economic co-operation through trade, credits, scientific and technical assistance, and offering scope for the promotion of economic relations, including adjustments of consumer and production structures for the benefit of both partners. Czechoslovak credit aid to the developing countries had increased in the past year. As a socialist country, Czechoslovakia was not concerned with private capital exports, and its credits to the developing countries represented funds released at the cost of its own economic requirements. It was difficult, therefore, to compare its approach to development financing with that of the market economy countries. Thus, while it was obvious that Czechoslovakia did not support the promotion of private foreign investment in developing countries, his Government would, in pursuing its national policies, continue to grant effective assistance to the developing countries. In so doing, it would continue to offer terms meeting the criteria laid down in the recommendations of the first session of the United Nations Conference on Trade and Development concerning the aims of international, financial and technical co-operation.

Mr. HAYES (United Kingdom) said he would concentrate on three of the subjects before the Committee - the international flow of capital and assistance, the outflow of capital from the developing countries, and export credits, on all of which his delegation's stand was based on the summary of the current situation and issues set out in the Agreed Statement adopted by the UNCTAD Committee on Invisibles and Financing Related to Trade in April 1967. It was most encouraging that agreement could be reached on a diagnosis of that kind. Although such an agreement would not in itself solve all the problems, the co-operative effort which had produced it was a step in the right direction. The Agreed Statement put the various aspects of the problem in proper perspective and emphasized the balance between the actions that should be taken by the developed and by the developing countries. The agenda item now under discussion, though alarmingly broad, did not seem to make allowance for that important aspect of interdependence between the policies of the developed and of the developing countries. There was not enough time at the present session for a full discussion of the wide range of subjects covered by the agenda item, but they would be discussed in much greater detail at the second session of the United Nations Conference on Trade and Development. The need at present seemed to be for the continued thorough analysis of the various problems. That was necessary not only in preparation for the second session of the Conference, but also as a basis for co-operative action in the period following the present decade.

There was a tendency constantly to measure the progress of the flow of resources. That was a difficult question to discuss since, as indicated in the summary of questions and issues (E/4408), the resource transfer targets set in General Assembly resolution 1522 (XV) and in Recommendation A.IV.2 of the United Nations Conference on Trade and Development had never been defined with the precision necessary for an arithmetic calculation. There was a new report by the group of experts on the methodology of measurement of the flow of resources, but it would be hard to comment on that report in detail, as it was complicated by dissenting footnotes. He suggested that it should be discussed when representatives had had more time to examine it in detail.

The volume of the flow of resources was clearly an important and central issue but it ought not to be considered in isolation from other issues. A 20 per cent increase in the effectiveness of assistance was as good as a 20 per cent increase in volume, but at international meetings it was easier to discuss volume, since effectiveness could not so readily be measured. In fact, the two were interdependent, and doubts concerning the effectiveness of assistance were one of the elements making for difficulty in increasing its volume. It was essential to make assistance as effective as possible and also to find better ways of demonstrating its effectiveness. That would be difficult to demonstrate statistically, since the pace of development in developing countries often bore little relation to the amount of assistance they had received. The IBRD had sponsored a study of the broad effects of some of its own projects, which might produce useful ideas. Moreover, the Agreed Statement expressed the hope that the country studies being carried out by the UNCTAD secretariat would throw light on the factors relevant to economic development and the relation between growth rate and the amount of aid received. In any case, an unduly gloomy view of progress in international co-operation for development at the present stage might well cause serious dangers.

As regards the outflow of capital, he agreed, firstly, with the words of the Agreed Statement that the over-all terms of aid on development loans generally remained too hard. For that reason, the United Kingdom was using interest-free loans in a wide range of cases where it believed them to be necessary. It was widely acknowledged that the Development Assistance Committee of OECD, had pioneered the way in setting commercial targets for the terms of assistance (subsequently endorsed by the Economic and Social Council and the General Assembly of the United Nations, but his delegation firmly believed that there was still need for better adaptation of the terms of assistance to the circumstances of recipient countries and for closer harmonization of the terms of aid provided to particular recipients from different sources.

Secondly, he endorsed the point made in the Secretary-General's progress report on the outflow of capital from developing countries (E/4374) that controls over the outflow of the proceeds of direct foreign investment might have the opposite effect on the balance of payments from the one intended if their result was to discourage the inflow of foreign capital.

Thirdly, he welcomed the section of that study dealing with the outflow of indigenous capital. The report drew attention to the diversity of forms of that capital outflow and to the diversity of motives prompting it. The subject seemed important for psycgological as well as economic reasons and insufficient effort had perhaps been made in the past to come to grips with it.

The complex problem of export credits should be placed high on the list of problems needing consideration. That applied both to export credits from developed to developing countries and the improvement of credit facilities for the export of goods from developing countries. Where credits from developed to developing countries were concerned, the Agreed Statement set out a number of questions requiring clearer answers. Exporters wanted to increase sales but it was undesirable that competition in price and quality should become secondary to competition in credit terms. Developing countries badly needed credit, but acceptance of too much, especially on relatively hard terms, could lead to balance of payments difficulties which might seriously check the momentum of development. Those countries were exposed to strong temptation to accept more credits than they could service, but the rationing of credits would seem undesirable both for supplier and customer. It was not surprising that satisfactory solutions were difficult to find. His own delegation had supported suggestions for reducing the problems by drawing a clearer line between commercial credits and development assistance, but many countries felt that an adequate solution could not be reached along those lines. His country would continue to press for international discussion until some satisfactory way out of the difficulties could be found.

With regard to credit facilities for exports from developing countries, the subject was one of great importance and called for sympathetic attention. His delegation at present had no definite views on how such facilities should be built up, but it acknowledged that the subject was one of many on which continuing investigation was required.

Mr. LAVALLE VALDEZ (Guatemala) said it was sufficient to examine the external sector of a developing country to obtain a fairly complete idea of its economic progress or regression. The strong correlation, stressed by the Managing Director of the International Monetary Fund (IMF), between the rate of growth of production in the developing countries and the increase in their foreign exchange inflow bore out that statement. For that reason, he had studied with considerable interest the documentation submitted to the Council concerning the essential elements of the external sector of any developing economy. He was particularly glad that the documents dealt with two aspects of that question which had so far been given rather less attention than they deserved; the outflow of capital from the developing countries and the factors affecting the ability of developed economies to assist in the economic progress of those countries through public channels, whether bilateral or multilateral, and from private sources.

As was pointed out in the report on factors affecting the ability of the developed countries to provide resources to the developing countries, an increase in the growth of the developed economies did not necessarily increase the volume of resources transferred to the developing countries: if anything it tended to reduce that volume, since the pressure of demand in the developed countries hardened the capital market, making it difficult for the developed economies to acquire the necessary financial resources in those markets by direct action through the international financial organizations. On the other hand, however, a deterioration in the economic situation of the developed part of the world did not favour the underdeveloped economies either since, as the Executive Director of IMF had explained, any such weakening had an unfavourable effect on the flow of resources to the developing countries inasmuch as it reduced the demand for their exports in the developed countries.

Another disquieting factor was the danger to the developing countries from an international liquidity crisis. It was to be hoped that the next annual meeting of the Board of Governors of IMF would produce some positive results and, more particularly, that the developed countries would pay attention to the principle laid down in the first operative paragraph of General Assembly resolution 2208 (XXI) that the developing countries should be fully represented in the discussion and decisions loading to any new international monetary reform arrangements.

That part of the report on factors affecting the ability of the developed countries to provide resources which dealt with the targets for the transfer of resources to the developing world was particularly interesting and served to clarify the quantitative criteria used to define those targets. That analytic approach was a prerequisite for a quantitative and qualitative improvement of such transfers.

The study of the impact of resource transfers to the developing countries on the balance of payment problems of the developed countries contained a wealth of interesting observations. It was to be hoped that the authorities of the industrialized countries would take note of that report and realize that, in the long run, development aid could increase their exports even if that were not its immediate purpose. As the report made clear, uncertainty with respect to future resources acted as a brake on the development process. It was gratifying to learn that the developed countries were taking steps to isolate development aid from the repercussions of readjustments in the balance of payments. The consideration of development aid from the viewpoint of the financing countries had the important effect of revealing the problems produced by that aid in the national life and, in particular, the political life of those countries. A realistic approach to development aid could not ignore that viewpoint.

The part of the report dealing with development finance through the capital markets of the developed countries should have included a specific reference to the private placing of public issues on those markets by the developing countries, together with fuller information on that point.

In general, although the report had not exhausted the wide and complex topic with which it dealt, it undoubtedly constituted an important contribution to the subject.

He had been particularly interested in the report on the outflow of capital from the developing countries, since that outflow was a problem that had concerned the authorities of his country during the past five years. It was unfortunate that the contents of that interesting report suffered to such an extent from deficiencies in data and statistical methodology. It was to be hoped that the study of that question would be continued in the light of the information obtained from the questionnaire to be circulated by the Secretary General with a view to obtaining better statistical and methodological results.

Mr. AL-MUTAIR (Kuwait) said that it was characteristic of developing countries that their development plans were largely at the mercy of foreign resources because it was difficult, if not impossible, for them to accumulate enough savings from a population living at the subsistence level. Export earnings were the major source of finance for economic development, but did not meet all the need; they had to be supplemented by substantial foreign resources. Most developing countries were ready to accept private foreign investment in some form but, since the bulk of private foreign investment was still channelled into the exploitation of natural resources, such investment did not permeate the national economy as a whole and, at the regional level, its benefits were unevenly distributed among countries. In the Middle East, for instance, most private foreign investment went into the oil industry, so that Middle Eastern countries with no oil resources received very little of it.

Developed countries normally blamed the developing countries themselves for their lack of foreign private investment, but the capital-supplying countries were equally to blame when, for political reasons, they discouraged investment by restricting capital outflows. It was true that the developing countries, in spite of their desperate need for foreign investment, were unwilling to accept it when the terms offered were prejudicial to their national policies or economic independence. It was not true, however, that a major obstacle to the expansion of private foreign investment in those countries was a lack of fully formulated projects ready for execution. Many developing countries which had such fully formulated projects were still unable to attract foreign private capital because the policies they pursued were not acceptable to the capital-supplying countries. Many of them therefore, had come to the conclusion that the latter countries were politically motivated, and more interested in making quick profits than in establishing healthy relations based on mutual interest.

Even where the foreign private investor found the temptation irresistible, as in the oil industry, the foreign companies insisted on monopolizing the whole operation, from extracting to shipping and marketing. Only with difficulty could they be induced to train local staff, or to agree to the formation of local shipping companies to transport the oil, much less to permit the host country to take part in the industry as a whole. It had not so far been possible to persuade them to allocate a small fraction of their profits to finance economic and social development schemes in the oil-producing countries on a regional basis.

It was encouraging to note the important part played by technical assistance programmes in promoting foreign investment, and the pre-investment activities of the United Nations Development Programme (UNDP) had already proved of great value. Regional development banks were beginning to play an active role and, in time, would be able to finance a wide range of projects in their respective regions.

The summary and conclusions on promotion of private foreign investment in developing countries (E/4293 and Corr.1, para. 14) referred to "bases of reconciliation" between Governments and investors. There was no doubt that the developing countries would be most willing to co-operate in finding common ground provided that the concessions required of them did not unduly restrict their freedom of action or undermine their national policies. Restrictions on the repatriation of profits and capital certainly constituted a major risk factor which might well deter investors.

On the other hand, foreign enterprises should prove their good will by offering to train skilled labour and technical and managerial staff and, wherever possible, to promote domestic production to replace imported parts and components. Four delegations had made an interesting proposal (E/AC.6/L.371) that an ad hoc working group of experts from developed and developing countries should be set up to formulate guidelines and techniques for use in tax treaties which would be acceptable to both groups of countries. International double taxation had been a major obstacle to foreign investment, and the developing countries should not miss the opportunity to explore ways of solving that problem. Foreign enterprises should not, however, resent the contribution they automatically made by transferring advanced technology through their capital investment; on the contrary they should do everything in their power to promote the transfer of such technology to the developing countries.

The United Nations could play a leading part in finding bases of reconciliation between Governments and investors. His own country did not receive foreign aid; it was, to a moderate extent, an exporter of capital; but his Government felt strongly that the efforts of the United Nations in the search for such bases deserved whole-hearted co-operation and support.

Mr. FORSHELL (Sweden) said that the item now before the Committee raised such complex interrelated issues that his Government would need more time for study before taking a firm stand on many of them. One fact, however was clear: the progress of the developing countries would always depend mainly on their own resources, and the duty of the rest of the world was to afford those countries the best possible conditions in which to maintain and increase their export earnings.

The exports of the developing countries largely consisted, at the present time, of primary commodities, which were thus their main source of foreign exchange. It was therefore vital to find ways of stabilizing commodity markets.

The effect of trade barriers on exports from developing countries should not be underestimated. Even if the results of the Kennedy Round had fallen short of those countries' expectations, they made a significant contribution to the liberalization of trade which, in the long run, would benefit those countries as well as the others. But the Kennedy Round had to be followed up. His own country was prepared to do what it could in the direction of further reduction of trade barriers in the interests of the developing countries.

Although it was hoped that, in the future, external financing would be only a secondary source of funds for development, it was extremely distressing that the amounts of annual transfers had levelled off in recent years and had failed to keep pace with the expansion of the industrialized countries. It was to be hoped that that trend would soon be replaced by a vigorous increase in such transfers.

In his report International Flow of Long-term Capital and Official Donations, 1961-1966, the Secretary-General had made a quantitative review of the flow of resources to the developing countries. It was important, however, not to neglect the "quality" of the aid which that flow of resources represented for the developing countries. The flow was generally measured against quantitative targets, usually the "1 per cent" target set by the General Assembly in its resolution 1522 (XV); but, as was recognized in the Secretary-General's report on factors affecting the ability of developed countries to provide resources to the developing countries, that target was subject to different interpretations. It was often referred to as an aid target for the economically advanced countries, but in reality the General Assembly had referred to "the flow of international assistance and capital" generally.

The supply of financial resources could not be equated with assistance proper, for it included many items of a purely commercial character, while the important return flows of capital from the developing countries were not taken into account in attempts to assess the degree of success - or lack of success - in reaching the 1 per cent target. Moreover, paragraph III.5 of recommendation A.IV.2 of the United Nations Conference on Trade and Development clearly stated that that target was not intended to represent a suitable method for comparing assistance efforts.

The prevailing vagueness as to what constituted aid was evident from the statistics quoted to illustrate development aid efforts. Those statistics indiscriminately lumped together a wide variety of transactions, including public and private flows, grants and credits, bilateral aid and contributions to multilateral agencies, tied and untied aid, low-interest and interest-free transactions, and transactions on commercial terms. It was consequently very difficult to judge the level of aid proper. It would be advisable to try and devise means by which the aid component of capital flows to developing countries could be more adequately measured. That would entail giving greater weighting to transactions which indisputably constituted aid, such as grants, contributions to international agencies and, possibly, untied loans, while transfers in which the element of aid was negligible, e.g. short-term export credits, should not enter the statistics at face value. Without some such differential weighting, international comparisons of aid levels would be merely academic, if not misleading.

The Secretary-General's report on factors affecting the ability of developed countries to provide resources to the developing countries combined fact-finding with a reappraisal of certain assumptions which tended to retard the flow of such resources. That reappraisal made a valuable contribution towards solving the problems involved in setting the level of assistance moving upward again. Paragraphs 41-53, on the impact of resource transfers on the balance of payments, shed some light on the relationship between aid-tying and balance-of-payments considerations. The proportion of tied aid was increasing, but tying reduced the recipient countries' chance to benefit from competition between prospective suppliers, and thus reduced the real value of the aid received. For that reason, the role and effects of tied aid were under active consideration by several international organizations. The report rightly questioned the efficacy of tying assistance in order to reduce its impact on the balance of payments. He endorsed the statement in paragraph 47 that "The claim that tying eliminates the foreign exchange cost of assistance is certainly extravagant"; it was to be hoped that such findings would counteract the trend towards increased aid-tying, the more so as that practice threatened to invade the territory of multilateral assistance.

Many of the specific recommendations made in the summary and conclusions on promotion of private foreign investment in developing countries for action at the national and international levels were far-reaching and would need careful study. On the general question of promoting private foreign investment in developing countries, however, it could be said that, while such investment normally contributed to the development and diversification of those countries' economies, it was obvious that in most cases considerations other than development decided a foreign enterprise to invest abroad. Hence different forms of private investment varied widely in their value to development and, in a situation where the flow of resources to the developing countries fell far short of their needs, it would be natural to give preferential treatment to those investments which were likely to be most conducive to development. Hence the measures taken to encourage private investment in developing countries should take the qualitative aspects of the investment into account, and official support should be concentrated on investments likely to have an optimum effect on the economic development of the host country.

The study Export Credits and Development Financing pointed out that a gradually increasing number of export credits had been granted and insured on terms and for purposes which had tended to blur the distinction between trade and aid. In some cases, long-term export credits financed out of public funds accounted for an important part of a Government's total aid effort. His Government wholeheartedly supported the endeavour to make a clear distinction between commercial export credits and aid credits.

The Secretary-General's progress report on the outflow of capital from the developing countries (E/4374 and Corr.1 and Add.1) marked the first attempt to analyse the problem of outflow of capital from the developing countries. Such an analysis was a useful complement to studies of the flow of resources to the developing countries, whose economy stood to gain not only from an increase in the inflow from abroad but also from a reduction in the outflow of their capital and foreign exchange resources. The degree of indebtedness of the developing countries was a matter of serious concern, for it could significantly reduce the net transfer of resources. The report indicated that in 1965 the developing countries had paid some $3,500 million as debt service in respect of public and publicly guaranteed debt. According to the same source, the reverse flow generated by direct investment had probably been of the same order of magnitude in recent years. The UNCTAD secretariat had estimated that if current trends continued, loans to the developing countries, net of amortization, would be a minus quantity after 1975. It was thus clearly necessary to soften official loan terms. His Government had received parliamentary approval for the extension of the time-limits for repayment of its development credits from twenty years to twenty-five years. The grace period had also been extended, from five to ten years, while the interest rate would remain unchanged at 2 per cent per annum. It had also been agreed that Swedish credits to developing countries might be granted on International Development Association (IDA) terms, i.e. interest-free and repayable over fifty years. Even so, the endeavour to mitigate the terms of development credits might have to be applied to existing credits as well as to new ones. The Swedish Parliament had approved the application of the longer grace period to development credits already granted.

However, the problem of the external indebtedness of the developing countries could not be solved merely by softening the terms of assistance. The first necessity was that those countries should make the most effective use of the aid they received. In their efforts to mitigate the terms of assistance, the Governments of the donor countries were restricted to that from official sources. It was important, therefore, that the developing countries should adopt a sound policy with regard to private investment. If official aid on softened terms was used merely to satisfy creditors in the private sector, nothing would be gained.

Foreign loans should so far as possible be contracted only for reasonable purposes and on realistic terms in relation to future debt-servicing capacity. The problem in debt-servicing was not so much one of finding the necessary domestic resources as one of finding foreign currency in which to make the payments. If the loans contracted did not ultimately produce a corresponding increase in the foreign exchange earnings of the borrowing country, their servicing would ultimately reduce the net amount of foreign exchange available.

The Secretary-General's note on tax reform planning (E/4366) made some specific proposals regarding steps which developing countries could take through Government development policies and programmes. The immediate value of those proposals to the individual developing country was closely related to its degree of development; it was for the developing countries' delegations to the Council to indicate the right direction for future work on that subject.

Mr. BRILLANTES (Philippines) said that the summary and conclusions on promotion of private foreign investment in developing countries placed the relationship between the private foreign investor and the Government of the country of investment in a clear perspective. The taxation of the income from private foreign investment presented no problem provided that there was an agreement between the capital-exporting country and the capital-importing country for the collection of an equitable tax. In the absence of such an agreement there was a danger that investments might be lacking, might stagnate or might be withdrawn. If both the investor's country and the country of investment claimed tax on the income from such investment, a problem of double taxation arose. Double taxation - a source of great concern to the developing countries - was apt to discourage investment in otherwise promising projects, and the manner of avoiding such taxation affected the revenue derived by a developing country from foreign investment in its territory. The international community should study the problem as a matter of urgency.

The Economic and Social Council, in its resolution 486 B (XVI), took the position that income from investment should be taxable only or primarily in the country in which the income was produced. The responsibility for avoiding double taxation therefore fell mainly on the capital-exporting country. Many of the developed countries had already recognized that responsibility by granting tax relief to the investor; the forms of such relief were discussed in paragraph 72 of the summary and conclusions. However, since such relief was subject to unilateral revocation it did not afford sufficient assurance of stability. Moreover, tax systems both in developed countries and - increasingly - in developing countries were so complex that unilateral relief was far from satisfactory. A number of bilateral tax treaties had therefore been concluded in order to bring relief from double taxation into conformity with the tax systems of both the countries concerned. Such treaties now covered almost all fiscal relations between the major advanced countries, but were still infrequent between advanced and developing countries. The reason for the discrepancy was that advanced countries at a similar stage of development, and with an extensive exchange of investment and trade, could readily agree on some system of tax relief, since each of them was likely to gain as much revenue as it might lose by applying the scheme.

A draft model convention had been prepared by OECD for the use of its twenty-one industrialized member countries. That model, however, as OECD recognized, was not readily acceptable to the developing countries, which were likely to fare better under a system of unilateral relief provided by the tax laws of the capital-exporting countries. For example, OECD treaties required the country in which investment profits originated to renounce its tax claim on such profits or at least to reduce them to a low level. That sacrifice would in most cases be of no benefit even to the foreign investor, but would merely shift revenue from the developing to the developed country. Moreover, since the citizens of the developing country were not likely to collect substantial dividends or royalties from advanced countries, the developing country would derive no compensatory gain in revenue from such a provision.

A similar result would occur where a developing country sought to attract foreign investors through tax exemption. The benefit of such a concession would be reaped, not by the investor, but by his country's treasury, which would collect full tax on the foreign profits. Again, the developing countries had little to gain from the fiscal concept of the "permanent establishment", which limited the right of a country to tax profits derived from local operations unless such operations were recognized as amounting to the maintenance of a permanent establishment in that country. Tax treaties did not usually recognize local sales offices or purchasing offices as permanent establishments. Foreign firms derived much of their profit in the developing countries from the purchase of cheap raw materials or semi-manufactures for processing abroad, or from the sale of goods in the local markets. Hence the loss of revenue suffered by a developing country accepting such a tax treaty would not be offset by the tax relief theoretically available to its traders in the developed country.

Nevertheless tax treaties could be of great help to the developing countries in several ways. They gave foreign investors an assurance of stability. They furnished information useful for tax assessment and collection in both developed and developing countries. The treaty relations between the Governments concerned could also be used as a means of settling other tax problems, and of pooling knowledge and experience for the benefit of both parties. Since the model OECD treaty referred to in paragraph 74 of the summary and conclusions, was unsuitable for application between a developed country and a developing country, the many problems involved should be stated with a view to the formulation of guidelines and proposals. The Secretary-General had suggested for that purpose the appointment of an ad hoc panel of experts from both developed and developing countries, and at the meeting of the Committee for Programme and Co-ordination there had been strong support for that idea. His delegation was prepared to join in sponsoring a draft resolution designed to put the Secretary-General's suggestion into effect.

Mr. PIETRYGA (International Federation of Christian Trade Unions), speaking at the invitation of the Chairman, said that much of the capital leaving the developing countries to be invested in the industrialized countries consisted of the profits derived from agricultural and industrial production. However, only part of those profits came from the investment or the assets of those who exported them, and the result was incalculable damage to the development of the country concerned. The formation of capital was made possible by poorly paid labour and unilateral exploitation of natural resources whose yield should be enjoyed by the whole community.

The Secretary-General was to be commended on the preparation of the questionnaire reproduced in his progress report on the outflow of capital from the developing countries. The conclusions drawn from the survey would be of the greatest value provided that all countries replied in full to the questions asked. Unfortunately, many of the replies were too general in character, and not enough information was given as to intentions or as to how problems might be solved in accordance with each country's constitutional provisions and economic interests. The Council should urge Governments to reply to the questionnaire in sufficient detail for valid conclusions to be drawn. The national organizations affiliated to the International Federation of Christian Trade Unions were in favour of representations to their Governments with that aim in view. If the Council invited the competent non-governmental organizations to take action, his Federation would not fail to lend its support.

His Federation also agreed that tax reforms should be integrated into development plans, as suggested in the note on tax-reform planning. It could not, however, accept economic progress as the sole purpose of such reforms. The World Economic Survey, 1966 (E/4363) called for improvement of the distribution of income through tax measures. It would be difficult to mobilize human resources, as suggested by many delegations in the Council's general debate, if a majority of the population were not properly rewarded for their contribution to development. The purposes of tax reform should therefore include more equitable distribution of income. There was a close relationship between, on the one hand, policies designed to prevent the outflow of capital from the developing countries and, on the other, the prospects of tax reform. If the tax system encouraged reinvestment, private initiative would be stimulated and would serve the common good.

Another question which called for study was the use made of public income. In many countries, revenue hardly covered the most urgent expenditure under development plans; yet certain Governments used every increase in revenue to inflate the public administration, while others maintained over-large military establishments, to the detriment of economic and social development.

The meeting rose at 7.15 p.m.