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CONTENTS

President: Mr. Juan I. COOKE (Argentina).

Present:

The representatives of the following countries: Argentina, Australia, Belgium, China, Cuba, Czechoslovakia, Ecuador, Egypt, France, India, Norway, Pakistan, Turkey, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Venezuela, Yugoslavia.

Observers from the following countries: Chile, Indonesia, Netherlands.

The representatives of the following specialized agencies: International Labour Organisation, Food and Agriculture Organization of the United Nations, International Bank for Reconstruction and Development, International Monetary Fund, World Health Organization.

Economic development of under-developed countries

[Agenta item 3]

GENERAL DISCUSSION *(continued)*

1. Mr. OZGUREL (Turkey) recalled that the three groups of experts which had prepared the reports on full employment (E/1584), economic development (E/1986), and international economic stability (E/2156) had all stressed the urgency of increased economic development in under-developed countries.

2. The first of the reports noted that full employment could be achieved only in an expanding world economy in which the economic development of under-developed countries was the most important single factor. Clearly, therefore, an expanding world economy implied the acceleration of the general recovery of under-developed countries and, consequently, the question of full employment was seen to be an aspect of the question of economic development. The group of experts which had prepared the second report had also recognized that an increase in the rate of development of under-developed countries would remedy their sensitivity to world economic fluctuations. A similar conclusion was stated in the third report.

3. Increased production in under-developed countries was a prerequisite of any practical scheme for restoring the balance of world trade or remedying the dollar deficit. The latter phenomenon was, in fact, merely a manifestation of the insufficient volume of production and relatively low productivity in certain regions where demand had risen. Many countries had constantly to apply restrictive measures to make good the deficit in their trade and payments balances because their present production in terms of hard currency was insufficient to cover their increased demand. A group of economists discussing the Randall report had come to a similar conclusion, that United States foreign policy should be directed toward the improvement of economic, political, social and psychological conditions, and should not seek a cure for the dollar deficit as such, the deficit being merely symptomatic of the effect of those factors.

4. The rapid economic development of under-developed countries depended largely on the flow of private capital to them, and that could best be achieved through private channels. The beneficial effects of the influx of private capital would be felt alike by the under-developed countries, the capital-exporting countries and the world in general.

5. The governments of the capital-exporting countries should take steps to give taxation privileges to profits earned abroad which had already been taxed, whilst the under-developed countries should ensure that the scope for the application of capital was wide, and that facilities were available for the transfer of profits and the repatriation of capital. The vast capital exports of the United States between 1946 and 1952 had been a particularly laudable manifestation of a spirit of international economic co-operation, and it was to be hoped that the United States Government would take measures to encourage the flow of United States private capital to the under-developed countries in future.

6. Turkey had made great efforts to attract private investment in every field and had given guarantees of security and freedom for the export of profits and the repatriation of capital. The Turkish oil industry was an example of the inability of domestic sources of capital to produce results with sufficient speed, and the Government had realized the need to attract and co-operate with the foreign investor.

7. Turkey's liberal economic policy had prepared a foundation on which recovery could be built. For example, private bank deposits had increased by 175 per cent between early 1950 and September 1953 and were being channelled through the banks into production. Between 1949 and 1952, gross national production had increased by 41.1 per cent and it was likely in 1953 to be considerably above the 1952 figure.

8. Private enterprise had played a very important part in the increase of production in Turkey. Eleven new sugar refineries were under construction; 90 per cent of the necessary capital had been provided by sugar-beet growers and private sources. New cotton-spinning mills were being built; the number of spindles had increased from 260,000 in 1950, to 545,000 in 1954, and would rise to 700,000 in 1955. More than 70 per cent of the new mills had been provided by private capital. Twenty new cement works were being built with the assistance of the national banks, local companies and private contractors in order to meet the demand for cement, which had risen from 535,000 tons in 1950 to 2 million tons in 1953. More than 50 per cent of the capital for the

nitrogenous fertilizer and nitric acid industry had come from private sources. Two limited liability companies with a capital of £T16 million and £T26 million respectively had been set up to develop hydro-electric power. A general survey of recent Turkish industrial development showed that State participation had been only 25 per cent, the other 75 per cent being furnished by private sources; whereas in 1950, State and private sources had each provided 50 per cent.

9. The Secretariat's work on the international flow of private capital should be continued, with greater attention to changes in the general position and in the individual situations of capital-importing and exporting countries, and an annual report should be made to the Economic and Social Council.

10. The report *Commodity Trade and Economic Development* (E/2519) was generally admirable. The authors' interpretation of the phrase "just and equitable relationship" in General Assembly resolution 623 (VII) to mean "freedom from violent short-run fluctuations" was an excellent basis.

11. His delegation generally approved the experts' observations and would support their recommendations wherever implementation appeared practicable.

12. Mr. ADIL (Pakistan) said that on the successful solution of the economic problems of the under-developed areas depended the fate of hundreds of millions of people. They were living in an age in which prosperity as well as poverty could not remain isolated, where it was not possible to avoid the effects of poverty in a region from spreading its contamination beyond its frontiers. After the end of the last war, as a result of greater association amongst the people of the world, there had grown an urge amongst the people of the under-developed areas; those people felt that their lot had to be improved and, further, that it was within the competence of governments to do so. That urge was so deep-rooted that any non-fulfilment of their hopes would lead to a calamity which he would not particularly care to visualize. The economic argument for rapid development lay in the absolutely non-controversial statement that if economic development was not rapid enough, any perceptible increase in national income would be swallowed up by population growth, and, further, that the vicious circle of low incomes, low savings and low investment would be perpetuated. There were, therefore, both human as well as material considerations for promoting rapid economic development. However, if economic development was to be rapid enough, requisite finances, internal as well as external, had to be found. While the cost of national economic development should as far as possible be met from local resources, there was a limit beyond which those resources could not be stretched without causing intolerable hardship to people at large. It was in that field that international economic co-operation had been trying to play its part in bridging the gulf between local resources and the quantum of finance requisite for development. The maintenance of adequate national resources offered a fruitful field for international co-operation.

13. Pakistan had suffered from the post-Korea recession. Foreign exchange receipts in 1952-1953 had been Rs. 1,521 million, as compared with Rs. 2,417,200,000 in the previous year. In 1951-1952, jute exports of 4,850,000 bales had earned Rs. 1,168 million; whereas in 1952-1953, an increased export of 5,750,000 bales had earned only Rs. 532 million. Similarly, in 1951-1952, 1,100,000 bales of cotton exports had earned Rs. 809 million, as against Rs. 648 million from a larger export of 1,500,000 bales in 1952-1953. The foreign exchange surplus of Rs. 576 million in 1950-1951 had been followed by deficits of Rs. 460,200,000 in 1951-1952 and Rs. 406,900,000 in 1952-1953. As a result of corrective measures, including suspension of imports of all but essential consumer goods, industrial raw materials and capital equipment, a balance in international payments had been achieved, and in 1953 there had been a surplus of Rs. 122,400,000. The Pakistan Government was making every effort to promote exports, to earn more foreign exchange and to supplement exchange earnings by outside assistance. His Government was grateful to the Governments of the United States, Canada, Australia and New Zealand for the assistance they had given, and to the Government of the United Kingdom for making available certain credit facilities. So far as internal revenues were concerned, central government revenue had declined to Rs. 1,245,900,000 in 1952-1953, and to Rs. 1,079,200,000 in 1953-1954. Nevertheless, despite reduced internal and external resources during 1953-1954, the Pakistan Government had devoted the highest figure on record since the inception of the country for developmental purposes. For the budget year 1954-1955 the provision for development was 12 per cent higher than that for the preceding year. That indicated the importance which the Government of Pakistan attached to economic development.

14. The organizational character of development varied from region to region, and there could be no hard and fast rules for it. In the United States, private enterprise had been eminently successful in developing national resources, but in Pakistan it was not possible to leave economic development entirely in the hands of private enterprise. His Government had endeavoured to combine public and private enterprise and had formed the Pakistan Industrial Development Corporation to develop some of the larger industries in partnership with private capital; the system appeared to be working very well.

15. Raw material prices had been subject to violent short-term changes which had led to abrupt variations in foreign exchange earnings, as well as in the incomes of individual producers. Economic development in under-developed countries depended largely on the proceeds of current exports, and if such countries were to finance the major portion of their own development, they must be assured of adequate earnings through guarantees of equitable prices for their products. Nevertheless, the terms of trade were just as important to the under-developed countries as the absolute price level of their raw materials, and it should be possible for the Council to devise a system for establishing an equitable relationship between the prices of raw materials and the prices of manufactured goods.

16. Few under-developed countries could bear the entire cost of their development from local resources alone without inflicting intolerable strains and stresses on all classes of people. That necessitated supplementing national resources with foreign assistance, and by assistance in that context he did not mean outright gifts. The matter could be broadly discussed under two headings: (*a*) the international flow of private capital, and (*b*) loans from international financial institutions such as the International Bank for Reconstruction and Development, and also use of the resources of the International Monetary Fund.

17. The flow of private capital to under-developed countries was guided essentially by the profit motive. The margin of profit in the capital-exporting countries varied between 7 and 10 per cent, and private capital would thus not seek investment in foreign countries unless the guaranteed rate of return were much higher, say 10 to 15 per cent.

18. It had been stated that private capital investments in foreign countries had been limited by the risks of expropriation, bans on the remittance of profits and the ultimate repatriation of capital, and the instability of the political and social climate of certain countries.

19. Pakistan had a stable society with a stable government, which had repeatedly stressed that there was no fear of expropriation of private property. There was no ban on the remittance of profits or the repatriation of capital, subject to exchange control regulations, whilst fiscal policy was designed so as to provide powerful incentives to private enterprise and investment in industry.

20. Nevertheless, the response from foreign capital had been disappointing and he felt that foreign private capital could only make a significant contribution to the economic development of under-developed regions if a system of loans on reasonable terms were organized, guaranteed by and channelled through the government of the capital-exporting country or some international financial institution. For example, it was fairly easy for the United States Government to borrow at less than 3 per cent, and it could make such loans available at a rate of interest of, say, 3½ to 4 per cent. The interest on the loans and the ultimate repatriation of the capital would be guaranteed by the government of the region concerned. The Council should at its present session take definite action to stimulate the international flow of private capital. He felt that the capital-exporting countries could revise their fiscal systems to remove the bias against foreign investment without causing undue dislocation in their fiscal structures. There could be a greater dissemination of information regarding investment opportunities and the investment climate in capital-importing countries by the governments of capital-exporting countries.

21. The International Monetary Fund and the International Bank could play an important part. Under its present regulations, however, the Fund had to limit borrowings to a point where they might be insufficient to tide over the balance-of-payments difficulties of applicants. It should therefore be empowered to adopt a more flexible policy.

22. The Bank's operations had been very small in comparison with the requirements of the under-developed countries of Asia and the Middle East, and it appeared to have provided a greater amount of investment capital to countries where domestic savings formed a larger part of the national income. If the Bank really wished to assist under-developed countries it should supply them with investment capital equal to at least 10 per cent of their national income. It had shown a preference for the financing of public utilities for which foreign capital was not forthcoming or investments likely to bring about an increase in foreign exchange earnings or a saving in foreign payments. It had also been reluctant to finance industrial projects which could be better left to private enterprise and had not been liberal with the financing of non-self-liquidating projects, even where they might have a social and also a large measure of indirect economic value.

23. Loan applications should be processed much more quickly. Moreover, in assessing the credit-worthiness of under-developed countries, the Bank should not be influenced by temporary recessions, but should pay much more regard to the country's normal credit standing. Council resolution 427 (XIV), successfully sponsored by Mr. Said Hasan, the chief of the Pakistan delegation to the Council in 1952 in fact recommended the Bank not to be unduly influenced by countries' economic positions in times of recession.

24. The mainspring of the economic development of under-developed countries was the provision of continued and adequate national resources, supplemented by measures designed to attract private and institutional foreign capital on reasonable terms. It was to be hoped that the Council would find an early solution to the problem.

25. Mr. WILLIAMS (International Monetary Fund), referring to the report of the experts on *Commodity Trade and Economic Development* (E/2519), said that further progress towards the objectives sought by members of the Fund would be much easier if greater stability could be achieved in international markets, provided that the stabilization methods employed did not unduly interfere with economic efficiency and progress. In that connexion, the Fund was pleased to note that the experts had warned against the adoption of ill-considered schemes which would involve the danger of excessive rigidities and restrictions on production, and that the report called attention to the relation between general monetary policy and the stabilization of particular markets.

26. The Fund concurred in the experts' opinion that it was one of its important functions to make available to its members temporary assistance in meeting a decline in their international receipts arising out of a fall in the value of their exports in time of depression. That view was entirely consistent with the Fund's Articles of Agreement and with past statements of its policy. Present rules and procedures with respect to transactions in general were intended to allow appropriate contra-cyclical transactions.

27. The Fund had given particular attention to the question of contra-cyclical use of its resources in connexion with the report on *Measures for International Economic Stability* (E/2156). Its observations at the fourteenth session of the Council were still fully applicable and he referred the members of the Council to them (624th meeting). In recent years, the Fund had found a wider scope for its operations and had thus acquired further experience in handling requests for drawings by members in widely varying circumstances. In that connexion, he drew the Pakistan representative's attention to the fact that in recent months the Fund had twice—in the case of Turkey and of Peru—waived the 25 per cent limit on drawings.

28. The world economic situation and the level of world trade had, on the whole, been favourable in recent years. Since mid-1952 the gold and dollar reserves of countries outside the United States had increased by $3.5 thousand million, and the upward trend was continuing. The need for any generalized use of the Fund by a large number of members to meet a situation of general depression had fortunately not arisen, although there had been a considerable need for use of the Fund's resources, leading to a total of transactions of $230

million in 1953. The members requesting the Fund's assistance in 1953 had encountered temporary balance-of-payments difficulties arising from their own particular situation, rather than from any world-wide depressive tendencies.

29. Another important field for the use of the Fund's resources was assistance to countries desiring to make their currencies convertible. A concerted attempt by the major countries to make their currencies convertible was likely to mean that some of them would have further to strengthen their international reserves. The recent renewal of the Fund's stand-by credit policy had envisaged a more extensive use of the Fund in that connexion, as well as in connexion with the support of currencies that were already convertible.

30. The alternative situations in which the Fund's resources might have to be used were likely, to a considerable degree, to be overlapping. One of the reasons, for example, why countries which were assuming the risks of convertibility needed adequate foreign exchange reserves was to enable them to maintain convertibility even if their income from exports declined because of a contraction in world demand. He did not wish to imply that the Fund considered its function with respect to mitigating the effects of a depression unimportant. As the representative of the Fund had said in the statement to which he had already referred, the Fund was fully aware of its responsibility to act with determination to assist its members in lessening the balance-of-payments impact of any future depression and believed that, with its existing machinery and even with its existing resources, it could make a useful contribution to that end. Moreover, as stated in the Fund's study on the "Adequacy of Money Reserves" (E/2454) transmitted to the sixteenth session of the Council, in the event of a severe depression, the Fund would probably consult its members on the desirability of additions to its resources and would consider possible changes in its modes of operation.

31. Mr. HOTCHKIS (United States of America) said that the foreign economic policy of the United States Government had been summarized by President Eisenhower as curtailing aid, encouraging investment, facilitating convertibility and expanding trade. He was confident that almost all of the members of the Council would agree with that policy. No country liked to rely on assistance from abroad, and most countries realized the benefits resulting from a free flow of private investment and a free exchange of currencies. All were eager to co-operate in the removal of artificial barriers to the increase of peaceful trade. The United States had already demonstrated its interest in the economic development of the under-developed countries by the scale and scope of its activities in providing financial and technical assistance. Congress was now being asked to maintain the programmes of development assistance and to increase the programmes of technical assistance to under-developed areas. Future conditions must be created in which extraordinary financial assistance was not required.

32. The experts' conclusions on the problem of long-term changes in the relationship between the prices of primary commodities and of manufactured articles corresponded to the conclusions set out in the report of a group of experts on *Measures for International Economic Stability* (E/2156). His Government had expressed similar conclusions on a number of occasions. In brief, they were that it would be neither desirable nor practicable to attempt to change the long-term relationship between prices of primary commodities and of manufactured goods, which tended to be established by the operation of competitive market forces. The experts' work in that field had been most realistic and had been admirably supplemented by the Secretariat reports (E/2438, E/2455, E/2456 and Add.1).

33. The experts had concentrated on the problem of extreme short-term price fluctuations within the long-term trend. Such price-swings presented difficulties for all countries, but especially for the less-developed countries which derived their foreign exchange earnings mainly from the export of only one or two primary commodities. There could be no disagreement as to the desirability of reducing price instability in primary commodity markets. The problem was how that could be safely accomplished. Devices that served temporarily to reduce price fluctuations might retard rather than promote healthy economic growth if they interfered with long-term price trends and introduced restraints that impaired the elasticity which was fundamental to economic progress.

34. That danger, together with the great practical difficulties involved in reaching accord on the details of governmental commodity arrangements, largely explained why so few international agreements involving consumer as well as producer countries had been reached. His delegation agreed with the experts that there was little likelihood of any substantial increase in the number of such agreements. On the other hand, it could see little justification for the experts' hope that commodity agreements might be an effective means of preventing excessive price fluctuations if several commodities were dealt with in a single agreement. The difficulties experienced in negotiating agreements on a single commodity would be greatly multiplied in any attempt to deal with a number of commodities at the same time. Moreover any agreement covering a number of commodities would magnify the danger of diverting production, consumption and trade from the channels they would be likely to assume under a more competitive and free enterprise system.

35. There was no likelihood that his Government would be prepared to give serious consideration in the foreseeable future to a commodity reserve currency schemes such as that which the experts had recommended (E/2519) for study. It was politically impracticable and he hoped that the Council would not waste time on it.

36. The most specific proposal (E/2519) by the experts concerned the establishment by the Council of a trade stabilization commission, which would be concerned with general proposals for dealing with the stabilization problem but would not interfere with the work of existing international machinery, such as the Interim Co-ordinating Committee for International Commodity Arrangements and its associated study groups. His delegation was unable to support that recommendation, since the proposed commission would inevitably exercise the same general functions as the former Economic and Employment Commission and might be expected to suffer from the same defects. In addition, duplication of discussion would be involved, since the Council itself must necessarily debate broad questions of economic policy.

37. With regard to the experts' suggestions relating to the use of the Fund's resources, his Government agreed

with what the representative of the Fund had just said and would be prepared, when necessary, to consider increasing the Fund's resources.

38. His delegation particularly welcomed the experts' warning on the danger of excessive concern with international measures and the emphasis on the need for national policies contributing to stability. Under-developed countries must avoid inflation and prevent the dissipation in boom times of investment funds, public revenues and foreign exchange earnings. Industrial countries could play a major role by combining steady economic growth with the maintenance of high levels of employment. The problem of excessive fluctuations could best be met by a realistic combination of international and national measures. Internationally, greater economic stability could be promoted by the relaxation of trade and currency restrictions and the wider exchange of information on the world supply of and demand for materials and foodstuffs. At the national level, the experts had rightly emphasized the need for sound fiscal, monetary and investment policies and had stressed the importance of formulating broad developmental programmes and establishing the administrative resources and political atmosphere necessary for their execution.

39. The United States was participating in study groups on several basic commodities, and the President had recommended to Congress specific measures for the relaxation or removal of impediments to foreign trade. In its stock-piling programme, the United States recognized an obligation to avoid actions which would have disruptive effects upon world prices. In disposing of agricultural surpluses, it would take special precautions to safeguard against the substitution or displacement of normal commercial marketing. Through its financial and technical assistance programmes and its efforts to promote conditions favourable to an increased flow of private investment, it was assisting in the economic development and diversification of under-developed countries. Lastly, his Government was resolved to maintain high levels of economic activity in the United States. In maintaining employment, purchasing power and reasonably stable prices in the United States, it would be making a major contribution to world economic stability.

40. Turning to the international flow of private capital, he pointed out how foreign capital imported in a climate favourable to foreign investments showed the way to private, local capital. As the industry or country developed, local capital would assume the dominant role, although foreign capital would still be welcome. The benefits of private international investments were enormous and should be still further extended. In the last two years approximately $3.5 thousand million had been invested abroad by United States citizens alone and, if the flow of private capital from northwestern Europe were added, the total in the last two years might be as high as $5 thousand million.

41. Global statistics were perhaps less impressive than some specific investment histories. One United States firm had recently introduced a totally new and complex industrial process in a South American country. Within a few years direct employment had been given to 4,000 men, only eleven of whom came from the United States. In the development of the tremendous iron ore resources of Venezuela, the United States Steel Corporation was building a ninety-mile railroad from Cerro Bolivar to Puerto Ordaz on the Orinoco River. Through intensive dredging, the Orinoco River had become an important artery for the supply of raw materials to world markets. The impact of that single investment in terms of the employment of Venezuelan nationals, the provision of electrical facilities, housing, schools and medical facilities, in addition to direct contributions to the Venezuelan economy in the form of taxes, was staggering. The Firestone Tire and Rubber Company investment in Liberia was a classic example of the way in which foreign capital investment could contribute to the economic strength, political stability and social progress of an under-developed country. Its success and the good relations consistently maintained with the Liberian Government had encouraged other investments in Liberia, particularly in mining, and additional major investments could be expected.

42. Those examples illustrated the predominant form of investments in recent times which was direct investment. The capital-exporting countries invested not only their capital, but also their technicians, ideas, skill and ideals. The flow of managerial and technical assistance was often more important than the capital itself. Portfolio investment had today pretty well disappeared. The International Bank and national institutions such as the United States Export-Import Bank provided the under-developed countries with basic facilities which increased the opportunities for diversified private investment, they sought private partners in their lending operations and they were, to an increasing degree, seeking funds in the private portfolio markets. Consequently, the investment climate abroad was of direct importance to the investments of the public lending agencies. Government lending agencies could conceivably provide capital in the face of an unfriendly investment climate, but the supply of such funds was never likely to be large. In talking about measures to stimulate the international flow of private capital, he was, therefore, referring to measures to influence the individual decisions of potential private investors.

43. Unfortunately, those decisions were adversely affected by such general conditions as the fear of war, and political instability. Other impediments, however, were more fully within the control of individual governments. They included threats of nationalization and expropriation, discriminatory treatment of foreign companies, stringent controls over the entry and operations of foreign investors and restrictions on the repatriation of earnings, capital gains and capital itself. Such impediments must be removed if a satisfactory climate for foreign investments was to be created.

44. Even if they were removed, however, there would not necessarily be a tremendous volume of private investment. The American corporate or individual investor had ample opportunity to invest his capital within the United States in a familiar environment in which he had confidence. American corporations had a large domestic market, and their overseas interests might be confined to production in the United States for export. In investing abroad they were likely to be interested initially in the countries most familiar to them, which might be those which were closest geographically.

45. The problem of the under-developed country was not to protect itself from the American investor, but rather to solicit his active interest by demonstrating that there were opportunities for profitable investment and that reasonable efforts were being made to meet his

legitimate requirements. The capital-importing countries should recognize that in seeking private capital they were entering a highly competitive market.

46. A successfully operating enterprise was better evidence of the investment climate in a given country than broad statements of policy or intent. It was of the utmost importance therefore that existing enterprises should receive fair and non-discriminatory treatment; the maltreatment of a single enterprise could do much to deter the flow of capital. In that connexion he had been particularly interested in the statements of the representatives of Turkey and Pakistan.

47. His Government had taken various steps to encourage investment abroad by United States citizens. Wide circulation was given to information on foreign investment opportunities in the *Foreign Commerce Weekly,* through the field offices of the Department of Commerce, through chambers of commerce and trade associations, and through the contact clearing house system of the Foreign Operations Administration. The Department of Commerce had published an analysis of factors affecting investment in approximately 26 countries. It was now publishing studies on investment conditions and outlook in selected countries, and such studies had already been published on India, Venezuela and Colombia.

48. The United States was actively pursuing a programme of negotiating treaties, *inter alia,* to ensure conditions favourable to the investment of private foreign capital. Thirty-two comprehensive treaties dealing with general economic relations between the United States and individual foreign countries were in effect, and his Government was prepared to discuss the conclusion of such treaties with any country which wished to facilitate foreign investment. Since 1948, the United States Government had been guaranteeing some of the non-business risks affecting investments abroad. That programme had at first been limited to European countries, but it was now available for any new United States investment in any country which concluded the necessary bilateral agreement with the United States. Guarantees could be issued against inability to convert local currency earnings into dollars and loss from expropriation or nationalization. The President of the United States had recently recommended that the programme should be extended to cover the risks of war, revolution and insurrection.

49. To provide incentives for an increased flow of private capital abroad the President had recommended to the Congress a number of important changes in the United States tax laws relating to the taxation of income from foreign sources, including a proposal that business income derived by United States corporations from sources abroad should be taxed at a rate 14 per cent less than the rate prevailing for corporate income in the United States. The long established policy of granting a tax credit for certain taxes paid abroad would further reduce the effective rate. Such tax benefits would be made available to United States corporations operating abroad through a branch or through a corporate entity of the foreign country. When the operation was conducted through a foreign corporation, it was proposed that in certain circumstances the United States corporation would be permitted to hold as little as 10 per cent of the stock of the operating company and still obtain tax benefits. Another proposal would recognize, for tax credit purposes, the tax régimes of countries which relied on taxes other than income taxes as the principal source of revenue from a particular business activity. That would still further reduce the burden of United States taxation.

50. Unilaterally, the United States was taking every reasonable step through tax incentives to induce its capital to seek outlets abroad. Bilaterally, the United States was prepared to enter into tax treaties to alleviate double taxation. It was a party to fifteen treaties with foreign countries on income taxes, ten on estate taxes and death duties, and one on the taxation of gifts. Negotiation of income and estate tax treaties with three other countries would soon be concluded.

51. It would be interesting to hear from the representatives of the capital-importing countries what measures they had taken to encourage the international flow of private capital by reviewing their domestic laws and administrative practices to remove deterrents, and by providing adequate assurance through treaties or otherwise concerning the treatment of foreign investors. It would be interesting to know whether they had developed adequate information services and other means for informing potential investors of business opportunities and the laws and regulations governing foreign enterprise and whether they had enlisted the participation of their own private business interests in such activities. His Government felt that there was considerable room for further action by individual governments along those lines.

52. The United Nations could encourage private investment by continuing the kind of work embodied in the Secretary-General's two interesting and valuable reports (E/2531 and E/2546) pursuant to an earlier General Assembly resolution [622 C (VII)] which were most useful and should be brought up to date from time to time, perhaps on an annual basis. Periodic reports on the flow of private capital and the adoption of measures to stimulate that flow would be welcome. Technical advice and assistance on private investment should be given greater emphasis in the technical assistance activities of the United Nations and the specialized agencies. Governments might give more consideration to including in their technical assistance requests the following kinds of services: assistance in economic surveys to determine the sectors most likely to be of interest to private investors and to identify specific opportunities within those sectors; advice on the preparation of material regarding specific projects in order to command the attention of private investors; advice in the revision of legislation and administrative practices affecting foreign investment; and advice in establishing channels for presenting specific projects to potential investors in capital-exporting countries.

53. His delegation would join with other delegations in introducing a resolution embodying a number of recommendations to stimulate the international flow of private investment.

54. Mr. ALFONZO RAVARD (Venezuela) said that the problem of economic development had two aspects, internal and external. There was much that the countries concerned could and should do themselves; without preparatory work, a determination to progress and careful technical planning, co-operation by international agencies would be of little use. Social, psychological, legal and economic factors contributed either to facilitate or to hamper economic development. Even from the purely economic point of view, means would

always have to be found to mobilize domestic capital and to make the best possible use of national savings.

55. External co-operation was however also essential. In the threefold field of trade, investment and international technical assistance there was great scope for co-operative action which would benefit both the highly developed and the under-developed countries. Economic development presupposed changes in the physical resources and a large-scale use of capital goods, machinery and technical equipment which were not available to the under-developed countries unless they possessed the necessary foreign currencies, the principal source of which was trade.

56. Any measure to encourage trade would also stimulate economic development. That was one of the main reasons why the under-developed countries were against restrictions on the volume of external trade and violent price fluctuations which might disturb their plans for development. It was not enough, however, that the volume of trade should increase or relative price stability be established; the terms of trade for the products of the under-developed countries should not be unfavourable, as they had been for long periods in the past. It was true that since the Second World War they had been progressively improving, and this is partly the reason for the progress made in some Latin American countries during that period. The recent decline in the terms of trade for certain primary products was a cause of serious anxiety.

57. At the Tenth Inter-American Conference, which had recently met at Caracas, Venezuela, all the Latin American countries had emphasized the vital need for an equitable solution of the problem of terms of trade and had urged that the American nations would be unable to draw up positive plans for progressive economic development unless they could obtain remunerative prices for their primary commodities and natural products. Particular reference had been made to the research work carried out by United Nations technical bodies. The study of the problem would be continued at the next meeting of the Ministers of Trade and Economic Affairs of the American Continent, to be held at Rio de Janeiro towards the end of 1954. The work of that meeting would undoubtedly be influenced by the conclusions reached during the current session of the Economic and Social Council.

58. Venezuela was a striking example of the beneficial effects of a sound foreign investment policy. The financing of economic development required large-scale investments, which were not always available to countries in process of development, and foreign capital, whether public or private, was an essential factor. There had not been up to the present a sufficient flow of capital to the under-developed countries. From 1920 to 1930 the annual average flow had been not more than $500 million. For 1951 the amount, including grants-in-aid and loans, had been $1,500 million or a little less. According to the calculations of the United Nations experts, that sum, added to the present level of savings in each country, would increase the annual *per capita* income by barely 0.75 per cent. From 1905 to 1913 the United Kingdom had exported an annual average of £143 million, or 7 per cent of the annual national income.

59. According to the group of experts, $550 million a year of foreign capital would be required to bring about a *per capita* increase of 2 per cent in Latin America. The Latin American countries must therefore consider by what methods such transfers of public or private funds could be effected.

60. Both the investing countries and the countries in process of development should adopt the most appropriate measures to promote and intensify the investment of private capital. The capital-exporting countries could stimulate the flow of capital to the under-developed countries by the adoption of appropriate fiscal measures. Measures to avoid double taxation, and especially to ensure that the proceeds of private capital invested abroad should be taxed only in the countries in which they had originated, would contribute materially to the end in view.

61. In that respect it was encouraging to note the policy pursued by one of the principal capital-exporting countries—the United States. It was to be hoped that the reduction of 14 percentage points recommended by President Eisenhower on income from certain investments abroad would be a first step towards a policy of complete elimination of taxes on the proceeds of such investments.

62. The most effective contribution the capital-importing countries could make would be the maintenance of a favourable climate which would inspire foreign investors with confidence. An essential factor was the equitable treatment of foreign investments. That was the cornerstone of Venezuela's policy in the matter, which had opened the door to large-scale investment in various fields of activity. Under the protection of Venezuelan law the oil industry had developed enormously; investments in that industry, amounting to about $2,200 million, had contributed directly and indirectly to the welfare of the people and the general economic development of the country. Foreign investments in other sectors of the economy amounted to about $300 million.

63. By means of what had been described as exemplary provisions, Venezuela participated fully in the exploitation of its natural resources. It had been enabled to undertake large-scale educational and health programmes and to lay the foundations for rapid agricultural and industrial development. The figures showed the excellent results of the policy pursued by the Venezuelan Government. In the industrial field, for example, taking 1948 as the base year for production, the index figure for 1953 would be 213.48. The rate of increase had not of course been the same for all sectors of industry; for textiles and foodstuffs respectively the index figures would be 144 and 165; in the tanning and leather industry 415.42; in the rubber industry 406.89; in the building materials industry 338.05; and in the metallurgical industry 791.15. Outstanding progress had been made in the oil industry; about 20 per cent of the crude oil produced was refined in the country, and the index figure for 1953 would be 905.62. The Venezuelan Government intended that that expansion should continue.

64. The production of crude oil had increased from 69 million cubic metres in 1947 to 105 million cubic metres in 1952. For 1953 the figure was 102,423,000 cubic metres. Oil exports for 1952 represented 95 per cent of the country's total export value. Currency from that source had amounted to 78.12 per cent of total revenue and taxes on the sale of oil to 57.67 per cent of the total fiscal revenue.

65. Iron mining had been started in the most favourable circumstances. In 1950 total production had been

198,952 tons; for 1953 the figure had been 2,069,805 tons and for 1954 it would probably exceed 5 million tons. So far, over 650 million bolivars, or about $200 million, had been invested in that industry by various concessionary companies. It was estimated that during the period of construction, between 600 and 1,000 million bolivars, or from $200 to $300 million, had been spent in the country.

66. The resultant benefits had extended to all sections of the population. Housing conditions, health and sanitation had been transformed during the past few years. The standard of living of the working classes had improved along with the country's economy. The index figure for daily earnings in 1952 was 41 per cent higher than that for 1948. The index figure for real earnings, based on the relative increase in the cost of living and in nominal earnings, showed an increase of 18 per cent over 1948. Thus, nominal wages had increased more rapidly than the cost of living and the figures represented a genuine increase in real wages.

67. The Venezuelan delegation would welcome any proposals designed to increase the flow of private capital to the under-developed countries. It would be glad if the discussion gave rise to a declaration similar to that adopted by the Tenth Inter-American Conference, which stated that in order that new foreign investments might contribute effectively to economic development, due account should be taken of the situation of already established enterprises. That declaration had been adopted unanimously. The adoption of a similar resolution at the international level would help to avoid unnecessary friction in the receiving countries. The security of foreign investments would undoubtedly be increased by a conviction among the peoples of the receiving countries that those investments contributed to national progress. Such a declaration would embody the principle that foreign capital should co-operate effectively in the development of the under-developed countries and should not operate to the prejudice of the national industries.

68. Agrarian reform on modern lines on a purely technical basis was being carried out in Venezuela. There were two main objectives: the national development of land resources with a view to increasing the production of foodstuffs and the transformation of rural society through a well-balanced, effective policy of gradual modernization of the old legal and technical agricultural conditions. Excellent results had been achieved: Venezuelan agriculture had been modernized; wages had risen and the whole way of life of the labouring population had changed. Moreover, there had been a considerable increase in agricultural output.

69. In view of the importance attributed by Venezuela to international technical assistance as a supplement to domestic plans for economic development, his Government had just signed a basic agreement and a supplementary agreement with the United Nations. Venezuela intended to make extensive use of the facilities offered by the United Nations, to contribute effectively where possible, and to increase its financial contribution to the United Nations technical assistance programme.

The meeting rose at 1 p.m.

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