United Nations
GENERAL ASSEMBLY
TWENTY-THIRD SESSION
Official Records

SECOND COMMITTEE, 1200th MEETING

Wednesday, 23 October 1968, at 3.25 p.m.

NEW YORK

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Chairman: Mr. Richard M. AKWEI (Ghana).

AGENDA ITEM 42

External financing of economic development of the developing countries: report of the Secretary-General (continued) (A/7203, chap. V; A/7253, E/4438, E4446 and Corr.1, E/4495, E/4512, E/4539, E/4565)

1. Mr. BESY (Madagascar) said that United Nations interest in economic and social development dated back to General Assembly resolution 626 (VII) of 21 December 1952, which had been followed up by resolution 1522 (XV) of 15 December 1960. A number of developing countries were still unable to exploit their natural resources owing to lack of capital, and in two thirds of the world the economic situation, which was an important factor for world peace, was deteriorating year by year. Another manifestation of the downward economic trend in developing countries was their percentage of total world trade, which had fallen from 27 per cent in 1953, to 21 per cent in 1961, 20.4 per cent in 1964 and 19.3 per cent in 1966. In terms of national income, aid from the developed countries had declined from 0.87 per cent in 1961 to 0.62 per cent in 1966. Aid to Madagascar had fallen off by 17 per cent between 1966 and 1967.

2. It was hardly surprising that many of the younger countries, despite their faith in the Charter of the United Nations, felt disappointed. At the twenty-second session of the General Assembly, plans had been made to increase the flow of capital to the developing countries and to ease the terms on which it was provided. Although some countries had entered reservations on grounds that those plans were incompatible with their laws, there had been a sufficient measure of agreement to enable the General Assembly to adopt resolutions 2274 (XXII) and 2276 (XXII), and the developed countries had been requested to study the possibility of implementing the various measures suggested for increasing their financial aid to the poor countries. Operative paragraph 2 (b) of resolution 2276 (XXII), by limiting itself to the recommendations made by the group of experts in their report on the methodological problems related to the measurement of the flow of resources to developing countries,[1] ran counter to the recommendation made at the second session of the United Nations Conference on Trade and Development (UNCTAD) that the 1 per cent aid target should be based on the gross national product rather than the national income of each developed country.[2]

3. The position in the matter of external financing was not improving and the minority group of developed countries were thwarting the wishes of the majority and undermining the moral force of United Nations resolutions. Improvements were needed in a number of areas: in the granting of multilateral aid, in the volume of aid in relation to the size of projects and in the counterpart contributions which were usually required. The counterpart requirement should be seriously examined with a view to ascertaining whether it should not be waived, because, given the enormous political, economic and social sacrifices which had to be made by the recipient countries, it violated their inalienable right to dispose of their own resources. Efforts should be made to find a compromise between the positions of the two groups, for the aid provided by the rich to the poor countries served to cement friendships and consolidate world peace.

4. Mr. MOSIN (Union of Soviet Socialist Republics) said that the basic problems underlying the external financing of economic development were the inadequacy of productive investment, the outflow of foreign exchange, hard lending terms, and inadequate export earnings. The developing countries' external debt amounted to $45,000 million and repayments and amortization were approaching the point where they would completely absorb new loans. The outflow of resources fell into three categories: debt-servicing, remittances and interest on direct foreign investments, and the export of domestic capital. The outflow in the first two categories amounted to some $9,000 million, all of which found its way into the coffers of the highly developed capitalist countries. The hardening of official loan terms was accompanied by deteriorating conditions in the world's capital markets; the USSR had therefore supported the demands made by the developing countries at the second session of UNCTAD that their debt-servicing burden should be lightened.

[1] United Nations publication, Sales no.: 67.II.D.17 (E/4327), pp. xiii-xv.

[2] See Proceedings of the United Nations Conference on Trade and Development, Second Session, vol. I, Report and Annexes (United Nations publication, Sales No.: E.68.II.D.14, annex I, decision 27 (II), p.38.

5. The financial exploitation of the developing countries by monopolists continued unabated. Thus, the profits of United States monopolies in 1960-1966 had amounted to $13,800 million, as against only $6,500 million in direct investments by those monopolies during the same period, while the average annual income of international monopolies from their foreign capital investments had reached almost $40,000 million. The activities of foreign private capital should be carried on in such a way that the economic interests of the country of investment were safeguarded. It was rather surprising that the authors of the report entitled Foreign Investment in Developing Countries (E/4446 and Corr. 1) seemed to be concerned more with the interests of foreign private capital than with those of the recipient countries. Indeed, the conclusions and recommendations in pages one to five of that report gave the impression that any action to strengthen national sovereignty over natural resources might "frighten off" foreign investors. Furthermore, no attempt was made in the report to condemn the activities of foreign monopolies, which were plundering the developing countries. Nor was any mention made in the report of such important General Assembly decisions as resolution 2276 (XXII) on the outflow of capital and resolution 1710 (XVI) on the United Nations Development Decade.

6. In order to mobilize their productive forces and strengthen their trading positions, young sovereign States were endeavouring, inter alia, to make better use of their natural resources, to establish and expand their domestic industries and increase productivity, to improve their foreign trade structures by becoming less dependent on imports, and to limit the activities of foreign monopolies. The United Nations should assist the developing countries in those efforts, especially by making available the experience already gained in relations with large foreign countries. They should also be assisted in tax reform, export credits and the fuller mobilization of domestic resources.

7. The economic and technical co-operation extended by the Soviet Union was directed mainly towards assisting the developing countries to strengthen the State sector, thereby enabling them to mobilize their resources on a national scale. Experience had shown that expansion of the State sector accelerated economic growth and bolstered the national economy against foreign monopolies. Such co-operation had been afforded by the USSR on the basis of mutual advantage and full respect for permanent sovereignty over natural resources to a number of countries, including Afghanistan, India and the United Arab Republic.

8. In the sphere of international trade, the export revenues of the developing countries in 1967 had increased by only 3.5 per cent as compared with 6.5 per cent in 1960-1966. Prices for such commodities as coffee, tin and jute had fallen, and the trade deficit of all developing countries had reached the shocking figure of $600,000 million. The USSR therefore supported the demands of the developing countries for the conclusion of international commodity agreements. In contrast to countries which continued to ignore the matter of fair access to their markets for the developing countries' manufactures, the Soviet Union continued to increase its purchases of such goods; thus, for example, 40 per cent of Soviet imports from India consisted of consumer and industrial goods.

9. The financial plight of the developing countries was due to colonialist and neo-colonialist policies, and they were therefore fully justified in demanding compensation from countries that had exploited and were continuing to exploit them. The Soviet Union also supported the just demands of developing countries for an increase in the financial aid provided by developed capitalist countries.

10. With regards to the reference in paragraphs 116 and 117 of document E/4446 and Corr. 1 to insurance schemes in Germany, it was well known that there were two German States, the German Democratic Republic and the Federal Republic of Germany, and it should be standing practice in United Nations documents to name them correctly and accurately.

11. Mr. KARKKAINEN (Finland) said that debt-servicing and amortization payments had reached the point where there was a reverse flow of capital, and that meant that the gap between the per capita incomes of the developing and the developed countries was widening. One point, generally overlooked, was the fact that it was impossible to draw a clear dividing-line between the rich and the poor. Development was not uniform and gaps existed between countries in each of the two groups. It was possible, for instance, that large amounts of capital could not be fully utilized by developing countries if they had not reached a certain level of economic development, and likewise that some of the developed countries were unable to provide large amounts of capital without damaging their balance-of-payments position. Just as some of the developing countries had trouble servicing their debts, so some developed countries were falling behind in the matter of their growth rate and might often be larger-scale importers of capital. A country which had a balance-of-payments problem needed more time to reach the level of aid achieved by more prosperous countries. Finland, a newcomer to the ranks of donor countries, was in that position.

12. Nevertheless, Finland had supported the UNCTAD recommendation that developed countries should provide annually to developing countries 1 per cent of their gross national product.3/ Even though no firm date had been established on which the 1 per cent target was to come into effect, the fact that it had been generally agreed upon was influencing national political thinking and encouraging the drive for increased aid. It was more important that the developed countries should strive to reach the target in a spirit of genuine voluntary co-operation than that they should commit themselves to action which was beyond their means.

13. Although a net importer of foreign capital, Finland had regularly and substantially increased its development aid. Its contribution to the United Nations Development Programme (UNDP) had risen from $900,000 to $1,600,000. It was a founder-member of the Asian Development Bank and was planning to join other Scandinavian countries in contributing a

3/ Ibid.

total of $10 million to $15 million to the special fund of the African Development Bank. Its payments to the International Development Association (IDA) were in excess of its obligations. It was particularly encouraging that the younger generation in Finland was firmly convinced of the need to work hard to overcome power and social injustice and to lessen the disparities in levels of living throughout the world by providing more development aid.

14. Mr. MEHTA (India) said that promotion of the flow of external finance to developing countries formed an important part of the preparations for the second Development Decade. The importance of such finance was due to its direct relationship with economic development, as illustrated by the figures in the report of the Secretary-General of UNCTAD entitled Towards a Global Strategy of Development.[4]

15. That report also predicted that, if the 1 per cent target was fulfilled, developing countries would, in the next decade, be able to achieve a 6 per cent annual average growth rate, with a consequential 3 1/2 per cent increase in their per capita income. Clearly, therefore, the 1 per cent target was of great importance, and it was to be hoped that those developed countries which had not agreed to reach it by a definite date would soon be able to do so.

16. The World Economic Survey, 1967, and the background documents on the external financing of economic development stated that an improvement in world liquidity and the balance-of-payments position of the developed countries might be necessary before there was a significant increase in the flow of resources to the developing countries. But the fact that, given the imperfect world economic system, there would always be some countries with financial difficulties invalidated that theory. The present inadequate flow of capital was due to changes in the aid policies of some countries. The President of the International Bank for Reconstruction and Development (IBRD), had recently stated that the balance-of-payments difficulty was a problem of balance among the rich economies and not of balance between those countries as a group and the rest of the world; that very little of the money lent in aid stayed in the developing countries; and that almost all of it returned quickly in payment for the goods purchased in the richer countries. The record amount of capital funds recently raised by the Bank and its plan to double its resources in five years indicated that the developed countries were well able to increase their assistance if they had the will to do so. It also demonstrated that the 1 per cent target was attainable.

17. It was most important that the United Nations bodies responsible for helping developing countries should not be hampered by lack of funds. IDA should be replenished as a matter of urgency and steps taken simultaneously to prevent a recurrence of its present position. The widely held theory that there was a logical connexion between the creation of international liquidity and the provision of development finance might well be put into practice by earmarking for institutions like IDA part of any new liquidity created under the special drawing rights scheme created by the International Monetary Fund (IMF). The debt-servicing position was so serious that by 1970 new capital flows to the developing countries would be totally offset by the reverse flow of interest and amortization payments. It served little purpose merely to consolidate earlier loans. More than a mere breathing space was necessary. The solution was to soften the terms of future loans so that the developing countries could eventually liquidate their indebtedness and minimize their dependence on financial aid. Aid-tying did nothing to help the situation; it only increased costs for the developing countries.

18. Other forms of lending, such as the financing of commodity stabilization schemes, had been recommended at the second session of UNCTAD, and it was to be hoped that they would be implemented in the near future. According to the President of IBRD, it would take southern Asia 150 years to double its per capita income, and that would be an increase, so far as the average person was concerned, of only 25 cents a day. It would be most unwise to assume that people would wait patiently for such an infinitesimal increase. The relatively unambitious proposals before the Committee should not therefore be rejected.

19. Mr. ABE (Japan) agreed that the results of the United Nations Development Decade fell far short of expectations and that there was a pressing need to intensify the efforts of the international community. Nevertheless, excessive pessimism would inevitably have a discouraging effect on public opinion in the aid-giving countries and over-emphasizing the lack of progress might adversely affect the flow of aid. The Japanese delegation therefore welcomed the statement by the Secretary-General, in the introduction to his annual report on the work of the Organization (see A/7201/Add.1, para. 61), that shortcomings and imbalances had been more clearly identified, changes were beginning to take place and, in some cases, there had even been a breakthrough. Actually, the achievements of the first half of the Development Decade could in all fairness be described as rather encouraging. Such organizations as UNCTAD, UNDP and the United Nations Industrial Development Organization (UNIDO) had been established and, in addition, the aggregate growth rate of the developing countries in that period had amounted to about 4.5 per cent. It was also possible that a number of developing countries would reach or exceed the target of 5 per cent by the end of 1970. Furthermore, as stated in part One of the World Economic Survey, 1967,[5] the great majority of developing countries had succeeded in raising their savings ratios. That increase in domestic savings was a clear indication that those countries had come fully to realize that they were primarily responsible for the acceleration of their own economic development. Efforts to promote economic growth should be directed not only towards increasing domestic savings but also towards improving all other determinants of development. Those determinants could be divided roughly into two categories: economic and non-economic factors.

[4] United Nations publication, Sales No.: E.68.II.D.6 (TD/3/Rev.1).

[5] The Problems and Policies of Economic Development: An Appraisal of Recent Experience (United Nations publication, Sales No.: E.68.II.C.2 (E/4488/Rev.1)).

20. The most important economic factor in development was clearly capital. Domestic savings could be increased by mobilizing hoarded resources, consolidating savings and banking systems, adopting appropriate tax systems and effectively utilizing untapped human and material resources. Domestic savings must, however, be effectively channelled into productive investment. Another significant economic factor was the rapid modernization of the agricultural sector, which would in turn create a demand for industrial products and lead to greater savings which could be used for industrial investment. Development of the agricultural sector must, therefore, be promoted concurrently with, and often prior to, industrialization.

21. One of the key non-economic factors was the development of human resources. Since that involved the difficult task of changing traditional attitudes and values, it could be undertaken only by the developing countries themselves. There must be a determination to promote development, and a realization that long-term objectives could only be achieved at the expense of short-term benefits. The problem of under-development could not be viewed solely in terms of raising the level of per capita income or increasing investment; it also required a clear understanding of its many complex and deep-rooted causes.

22. Japan was fully aware of the extremely difficult tasks facing the developing countries and was ready to join in the common efforts for their development. The total net flow of capital from Japan to those countries had more than doubled between 1961 and 1967, and the net flow of official aid had increased almost four times during the same period to a total of $390.6 million. That rate of increase, one of the highest among the members of the Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD), was especially significant in view of Japan's limited aid-giving capacity: although Japan ranked among the world's rich countries in terms of gross national product and rate of economic growth, its per capita income was still less than one third that of the United States, and well below that of some developing countries. Moreover, there was still much to be done to consolidate its economic and social infrastructure, and its balance of payments was still vulnerable to cyclical changes in the economies of the major countries.

23. The Japanese delegation, while supporting the 1 per cent target recommended by UNCTAD, believed that the rate of increase in the flow of resources from developed countries, as well as its volume as a percentage of gross national product, should be taken into account. The Japanese Government had made every effort to soften the terms of its aid and had extended bilateral loans on substantially softer terms to a number of Asian countries. Its contribution to multilateral institutions had increased almost fivefold between 1961 and 1966, to a total of $51 million. It was also prepared to contribute more than $60 million of untied resources to IDA over the next three years. Despite serious constraints on its budget, Japan would continue those efforts, and would bear in mind the targets laid down in General Assembly resolution 2170 (XXI), but it was not yet in a position to commit itself to a specific time-limit.

24. With regard to the promotion of private foreign investment, he agreed with the statement in the Secretary-General's report that differences between the foreign investor and the host Government could be resolved only on the basis of a determination and recognition of what were the reasonable and legitimate expectations and requirements of both sides (see E/4446 and Corr. 1). He welcomed the decision to convene a panel on foreign investment (see E/4565) and expressed his appreciation to the Government of the Netherlands for its generous offer to act as host. A more appropriate pattern of tax treaties between developed and developing countries would provide the necessary incentive for the investment of private foreign capital, and the work of the ad hoc working group of experts established under Economic and Social Council resolution 1273 (XLIII) of 4 August 1967 was important in that respect. The establishment of the panel and the expert group marked a welcome transition from futile discussion to practical measures in creating a suitable climate for the effective use of private capital.

25. Mr. KAHONO (Indonesia) observed that the events of recent years were clearly reflected in the reports of the Secretary-General entitled "International flow of capital and assistance: review of recent trends" (E/4495) and "The recent flow of resources into and out of the developing countries" (E/4512). It was stated that although the first half of the 1960s had been a period of rapid economic growth for the developed market economies, the outflow of resources to developing countries had lagged behind. The latest annual reports of IBRD [6] and IMF [7] also presented a rather gloomy picture and stressed that 1967 had been a dramatic year which had witnessed the devaluation of the pound, the introduction of a two-price system for gold, rising rates of interest in domestic and international capital markets and a downward trend in economic activities.

26. That unfavourable trend had been noted in the Charter of Algiers,[8] since the adoption of which (24 October 1967) the provision of aid had levelled off and fallen below the 1 per cent target.

27. He drew attention to the concern expressed in the Charter of Algiers at the continued debt-servicing burden resulting from the hard terms of aid. Events in the developed countries had caused them to cut back their imports from developing countries, which represented approximately 50 per cent of the latter's income. Financing the economic development of developing countries was thus a matter of serious concern.

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[6] International Bank for Reconstruction and Development and International Development Association, Annual Report, 1968 (Washington, D.C.), transmitted to members of the Economic and Social Council by a note of the Secretary-General (E/4598).

[7] International Monetary Fund, Annual Report of the Executive Directors for the Fiscal Year ended April 30, 1968 (Washington, D.C.), transmitted to members of the Economic and Social Council by a note of the Secretary-General (E/4596).

[8] See Proceedings of the United Nations Conference on Trade and Development, Second Session, vol. I, Report and Annexes (United Nations publication, Sales No.: E.68.II.D.14), annex IX, pp. 431-441.

28. The need for urgent measures to increase the flow of external resources to those countries had been emphasized in international forums such as the Economic and Social Council, UNCTAD, IBRD and IMF, whose studies had led to the adoption of numerous specific recommendations supported by the developed countries, but progress in their implementation had been unsatisfactory.

29. It had been agreed at Algiers that the resources of IDA should be replenished and augmented, that financial support to regional banks should be increased and that private investment should be encouraged within the context of nationally defined priorities. It had been emphasized that aid funds should be progressively untied, with complete untying as the ultimate target.

30. His delegation welcomed the new policy adopted by the President of IBRD, as a result of which substantial loans to developing countries had been raised. More capital would be required if the recommendations concerning buffer stocks, supplementary financing, diversification programmes and the enhanced competitiveness of primary commodities, made in the World Bank's study on the instability of export markets,[9] were to be implemented. It was unfortunate that only $400 million had been obtained in response to the World Bank's request for $1,000 million a year to replenish IDA's funds.

31. He urged the principal countries involved to make every effort to replenish the funds of IDA and the special fund of the Asian Development Bank, both of which should be given the necessary means for their concessional loan operations.

32. His delegation welcomed the creation by IMF of special drawing rights. Liquidity was a matter of daily concern to Indonesia, which was constantly faced with the problem of financing current imports, while for the developed countries the problem was that of financing economic growth. It would thus not be fair to equate developing with developed countries in the matter of special drawing rights, and he hoped that IMF would introduce further improvements.

33. Indonesia welcomed the reversal of the downward trend of the trade cycle since the beginning of 1968 and the improvement in the balance of payments of many major industrialized countries. Still more public capital was needed, however, and it was necessary to seek other sources because of the developing countries' increased absorptive capacity. Bearing in mind the important role of private capital and its relatively small share in the total capital inflow into developing countries, his delegation considered that the Economic and Social Council's approval, in its resolution 1359 (XLV), of the Secretary-General's proposal to convoke a panel on foreign investment to discuss appropriate solutions to the principal issues in developing countries (see E/4446 and Corr. 1, para. 246), fulfilled an immediate need.

34. The progress made during the past year was not enough to offset the negative developments and meet increasing requirements and it was necessary to proceed diligently towards the goals established in the Charter of Algiers. A firm date should be set by which the transfer of funds should be made relative to the gross national product, as recommended at the second session of UNCTAD.

35. Mr. VERCELES (Philippines) said that, although some positive steps had been taken with regard to external financing, much remained to be done.

36. Figure I contained in the Secretary-General's report entitled The External Financing of Economic Development: International Flow of Long-Term Capital and Official Donations, 1962-1966 (see E/4438, p.93) showed that some developed countries had taken steps to fulfil the 1 per cent target. There had also been a trend in that direction during the years 1956-1966 among contributors with relatively low fulfilment ratios in the past, namely, Asutralia, Austria, Norway, Canada and Sweden, and his delegation hoped that others would follow their example. He congratulated the Netherlands, Belgium and France for having fulfilled the target. Nevertheless, the total volume of resources transferred had decreased considerably as a result of the downward trend in aid transfers by larger contributors such as the United States, France, the Netherlands and the United Kingdom. He hoped that the Netherlands and France would try to maintain the levels between 2.5 and 3 per cent which they had achieved in the years 1956-1958. It was a matter of conjecture whether the 1 per cent target had contributed to the downward trend in the transfer of resources from 1960 to 1966.

37. The terms of lending applied by some developed countries had eased with regard to interest rates, average maturity and grace periods. Canada's soft loan programme of 1964 had provided for interest-free rates with a ten-year grace period and fifty years' maturity. In 1965, Denmark had also announced a policy of interest-free loans from the level of 5.3 per cent. In terms of general average figures, however, a substantial number of large contributors still followed tight lending policies.

38. As a result of balance-of-payments difficulties, donor countries were resorting to aid-tying in a number of ways, including greater emphasis on products involving not only exports of capital equipment but also subsequent exports of spare parts. In some cases, donor countries limited the financing of projects whose products tended to compete with their own exports and sometimes restricted financing to particular sectors of the economy. The goods affected by the aid-tying process had been raw materials and semi-finished goods, which comprised the bulk of the developing countries' exports. Raw material exports were not only tied to transfer resources, but also commanded very low prices in the commodity markets of developed countries.

39. The developing countries should seek an explicit assurance that the market-economy and socialist countries alike would extend financial aid on a scale more proportionate with the latter's resources and more commensurate with the former's needs.

40. He recalled the recommendation by the Administrator of UNDP for a fuller commitment to the need for a genuine partnership of developed and developing

[9] Barend A. de Vries. The Export Experience of Developing Countries, World Bank Staff Occasional Paper No. 3 (Washington, D.C., International Bank for Reconstruction and Development).

countries, and the statement made by the Under-Secretary-General for Economic and Social Affairs that serious thought should be given to a stronger commitment by Governments to the action required for development (see 1180th meeting).

41. There had been recent signs that the progressive untying of aid was now being in favour with some donor countries. Once balance-of-payments difficulties had been overcome, more progress could be made. Many donor countries had expressed their willingness to adopt more liberal trade policies if others would do likewise. There was also evidence of some narrowing of the economic gap between some recipient and donor countries. The time had come to convoke the panel discussion on foreign investment proposed by the Secretary-General (see E/4446 and Corr. 1, para. 246) and endorsed in Economic and Social Council resolution 1359 (XLV). The discussion should centre on reconciling the positions of the recipient and donor countries with regard to foreign investment. His delegation wished to submit some observations on external financing to the panel. There were indications that restraints imposed by one donor country on the use of its cash grants or loans were quickly followed by similar action by other countries, thus weakening the bargaining power of the recipient country. There must be ways and means of equalizing, if not strengthening, the bargaining position of the receiving country. It might be possible, for example, for the raw materials and semi-finished products to be used as a source of bargaining; or in the case of bilateral aid, for arrangements to be made more flexible to allow the receiving country to choose the goods it would buy from the donor; or to allow part of the aid to be used for purchases in developing countries or regions.

42. The collection and collation by developing countries of information on international flows, including reverse flows, should be improved. The information should cover external debts, aid-tying terms and conditions, and the goods tied under bilateral, regional and international schemes. A two-way information system would enable the international community to consider the special circumstances of each country. The panel might wish to consider the need for improving government statistics on burdens of indebtedness. The real burden on a developing country could be gauged by such indications as vulnerability ratios, for example, the ratio between debt-servicing payments and export revenue, between total external debt and total annual exports, between debt-service payments and gross national product, and between the average annual percentage increase in debt servicing and the growth rate of export earnings. More knowledge of existing situations would help to encourage donor countries to adopt more flexible policies, and recipient countries to mobilize their natural and human resources.

43. His Government had taken steps to create a healthy climate for foreign private investment. It was endeavouring to improve its investment incentives programme and to learn from the experience of other countries. All investors and enterprises would be entitled to the basic rights and guarantees provided for in the Philippines Constitution, including repatriation of investment, remittance of earnings, the right to remit, at the prevailing exchange rate, amounts needed to meet payments on foreign loans, and freedom from expropriation and from the requisitioning of investment.

44. One of the most direct ways of dealing with budgetary constraints limiting the aid-giving capacity of some developed countries was to earmark revenues for foreign assistance, as in Norway, where a direct tax of one quarter of 1 per cent on personal income was levied for development aid. Donor Governments might also establish development institutions, outside the framework of their national budget, with sufficient autonomy to enable them to raise adequate funds for development assistance. Those countries might re-examine the measures suggested in the Secretary-General's report (see E/4438, chap. V) for insulating development financing from balance-of-payments and budgetary problems.

45. Mr. ASANTE (Ghana) said that the result of the advice given to developing countries to build up their infrastructure was that many of those which had done so were now in an even greater financial quandary, having to maintain roads, schools and hospitals. The investments made in those countries had thus not produced the greater development resources anticipated.

46. His delegation endorsed the statements made on the subject by representatives during and since the second session of UNCTAD. He hoped that the panel on foreign investment referred to in Council resolution 1359 (XLV) would give specific answers to specific questions and avoid general statements.

47. The slowing down of capital flows due to constraints imposed by the principal donor countries and to frequent crises raised two questions: whether structural changes should not be made in the financial system and why new liquidity could not be created to aid development. It had been assumed that those questions were for the major Powers and bankers to solve. International liquidity was, however, too great a problem to be solved by them alone. Developing countries must take more interest in the proceedings of the World Bank and IMF, and must demand speedy action on supplementary finance and special drawing rights. To say that liquidity must be created primarily for the developed countries was untenable: the developing countries had a vital need of it for their development.

48. Immediate steps should be taken to halt the deterioration in the net flow of resources to developing countries. He was pleased to note the intention of Australia, Canada, Denmark, the Netherlands, Norway and Sweden to increase their contributions, but wondered why the total volume of credit agreed upon by the centrally planned economies had fallen by 40 per cent in 1967. More information was needed concerning some features of the agreements with those countries, such as the provision for repayment in the form of raw materials and manufactures. Although the difficulties facing the major donors made greatly increased flows impossible, a great deal could be done to stem the reverse flows. As the Secretary-General's report on the international flow of capital and assistance (E/4495) indicated, donor countries beset by budgetary or balance-of-payments problems

might find it easier to soften the terms of credits already granted than to increase their volume. Such provisions as lower interest rates and longer grace periods would not materially affect the long-term payments position of donor countries but would greatly facilitate the economic growth of developing countries. Constriction inimical to economic expansion defeated the whole purpose of aid.

49. His delegation agreed with the suggestion that credits or grants should be made available for use in countries other than the donor countries, but recognized that such a concession could not be made on a unilateral basis. All the principal donors would have to agree together to make such credits available in a given country.

50. He congratulated those donors who had already achieved the 1 per cent target and hoped that others would follow their example before the beginning of the second Development Decade. He also welcomed the proposal by eighteen member countries of IDA and Switzerland to provide an annual amount of $400 million to IDA over the next three years.

51. Debt servicing could also be eased without causing serious problems for donor countries. Analysis of the situation had shown that the debt burden was generally an index not of reckless expenditure but of the rate of development. The statement by the representative of Canada (see 1198th meeting, paras. 29-33) had shown that the developing countries were not the only net importers of capital. International action was necessary to lighten the burden, since no creditor country would willingly forgo part of the repayment due to it while others received their full share.

52. Although it was impossible to deal with all the problems of external financing, sufficient study had been made to define areas in which action could be taken. He proposed that the Committee should recommend, first, that each economically advanced country should provide for annual transfers to developing countries of a net minimum of 1 per cent of its gross national product; secondly, that developed countries, particularly those unable to provide that percentage, should endeavour to ease the repayment terms for credits already granted; thirdly, that future credits should be granted on terms no less favourable than those suggested in United Nations resolutions; fourthly, that consideration should be given to the partial untying of credits granted and to less tying for new credits; fifthly, that the major creditors of developing countries should establish machinery for the rescheduling on application of the debts of developing countries and, generally, take active steps to ease the burden of debt servicing; and, lastly, that the present crisis in international finance should be recognized as offering a unique opportunity for increasing international liquidity, primarily for the purpose of expediting the development of developing countries and thus of the world as a whole.

AGENDA ITEM 12

Report of the Economic and Social Council (chapters I to IX, X (section B) XII, XIII (sections C to E and H to J) and XVI (sections A and B)) (continued)* (A/7203, A/C.2/L.1003)

53. The CHAIRMAN said that the consultations held after the adjournment of the debate on item 12 showed that there was no strong objection to postponing the discussion on the proposed new rule 162 of the Assembly's rules of procedure until the twenty-fourth session of the General Assembly. He therefore suggested that the Committee should recommend that course of action to the Sixth Committee.

It was so agreed.

The meeting rose at 5.55 p.m.

*Resumed from the 1194th meeting.

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