

**THE WORLD BANK GROUP ARCHIVES**

**PUBLIC DISCLOSURE AUTHORIZED**

**Folder Title:** Irving Friedman UNCTAD Files: New Delhi Meeting, February 1 - March 25, 1968 - Speeches

**Folder ID:** 1787621

**Series:** Records of Economic Advisor Irving Friedman

**Dates:** 2/1/1968 – 5/1/1968

**Sub-Fonds:** Records of President Robert S. McNamara

**Fonds:** Records of the Office of the President

**ISAD Reference Code:** WB IBRD/IDA 03 EXC-10-4481S

**Digitized:** 6/14/2013

To cite materials from this archival folder, please follow the following format:  
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK

Washington, D.C.

© International Bank for Reconstruction and Development / International Development Association or

The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

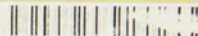
Internet: [www.worldbank.org](http://www.worldbank.org)

**PUBLIC DISCLOSURE AUTHORIZED**

Friedman UNCTAD Files - New Delhi Meeting / Feb. 1 - Mar 25, 1968  
Speeches

**DECLASSIFIED**  
WBG Archives

THE WASHINGTON GROUP  
**Archives**



1787621

A1992-017 Other # 5

167584B

Irving Friedman UNCTAD Files, New Delhi Meeting, February 1 - March 25, 1968 -  
Speeches

## OFFICE MEMORANDUM

TO: Mr. Rainer B. Steckhan

DATE: April 23, 1968

FROM: N. A. Sarma

*N. A. Sarma*SUBJECT: Algiers Charter

As per our conversation.

✓ cc: Mr. Irving S. Friedman

## Charter of Algiers

Attached hereto is a copy of the Charter of Algiers adopted at a Ministerial Meeting of developing countries in October 1967, preparatory to UNCTAD II. The Final Act adopted by UNCTAD I in 1964 is recalled, and it is noted that the promise held out has not been realized. The developing countries reiterate that the primary responsibility for their development rests on them, and call for "the urgent adoption of a global strategy for development requiring convergent measures on the part of both developed and developing countries". A program of action is given in Part Two - in a series of recommendations on Commodity Problems, Trade in Manufactures, Development Financing, Shipping and other Invisibles, General Trade Policy Issues, Regional Cooperation among Developing Countries, and Special Measures beneficial to the least developed countries. The recommendations with respect to development finance are in Section C of Part Two, at pages 14 - 17. The following concern the Bank Group, directly or more generally:

- (1) Resources of the International Development Association should be immediately replenished and augmented;
- (2) Developed countries and financial institutions should extend and intensify their support to regional development banks;
- (3) The International Bank for Reconstruction and Development should be made a Development Bank for developing countries exclusively. Total repayment of current loans by developed countries in advance of maturity should be secured. Such released funds should be used to augment resources of IBRD and IDA to finance development of developing countries;
- (4) There should be no discrimination by international lending institutions against the public sector, in particular in industry;
- (5) Beyond a date to be internationally agreed, all development lending should be on terms currently applied by IDA. In regard to earlier loans or loans on other than IDA terms, the interest should be subsidized by governments of developed countries.
- (6) A Multilateral Interest Equilization Fund should be created to cover the interest margin between loans obtained on international capital markets and concessional development loans;
- (7) External finance should be made available both for programmes and for projects and should include local costs where necessary;
- (8) UNCTAD II should negotiate an agreement for early implementation of a scheme of supplementary financing on the basis of a consensus to be reached after considering the report of the Intergovernmental Group on Supplementary Financing on the World



Bank study. In no case should the scheme involve internal policy commitments which prejudice the sovereignty of any member country as defined by that country.

- (9) A link between development finance and additional liquidity should be forged as urged by the developing countries.
- (10) Developed countries and financing institutions should extend credits on easy terms to developing countries for promoting tourism; developed countries and international credit institutions should make investments in infrastructure in tourism in developing countries.

Buffer stocks and diversification programs figure prominently in the section on commodity problems and policies, and a role is envisaged for international financial institutions in the prefinancing of buffer stocks and in the provision of funds for diversification programs.

Mr. Robert S. McNamara

April 12 1968

Irving S. Friedman

UNCTAD II

I think that you will be interested in reading the attached report prepared by Mr. Sarma, who was our Deputy Head of Delegation at the UNCTAD Conference. He has labelled it a "personal report" for self-explanatory reasons.

The various members of the UNCTAD delegation are now working on the report and I gather that Mr. Karasz, the Head of the Delegation, will be here in May from Paris.

cc: Mr. Wm. Clark

## OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

FROM: N. A. Sarma *Sarma*

SUBJECT: UNCTAD II - A Personal Report

DATE: April 5, 1968

A brief report attached hereto may be of interest.



## UNCTAD II - A Personal Report

### I Overall Assessment:

The second session of the United Nations Conference on Trade and Development, convened in New Delhi from February 1 to March 29, has been widely described as a failure. Such, at any rate, is the impression conveyed by the world Press; and it is an impression which was shared by a number of delegates, including many from the developing countries, when the Conference ended. In point of fact, although the Conference has achieved little that is tangible or specific, it has afforded possibilities for progress on some issues - provided the will is there.

Taking the negative side of the results first, it is clear that the Conference's recommendations fall far short of the needs and aspirations of the developing countries as expressed in the Algiers Charter. They do not even measure up to the moderate viewpoints expressed by such countries as India, Ceylon and Yugoslavia on the one hand, or Sweden, Canada and the Netherlands on the other.

Brazil, Ethiopia, Philippines and other spokesmen for developing countries said so in the closing stages, especially after the adoption of the compromise package on development aid matters. Many of these countries left the Conference disillusioned, and even bitter. They did not come to the Conference with any great optimism but they did come with a measure of hope, and the hope was kindled by the sentiments expressed by Ministers from donor countries in plenary addresses. As one delegate quipped: a New Delhi Charter could be fashioned even from the statements of West Germany (Schiller), the U.K. (Crosland), and the U.S.A. (Rostow)! But, in Committee meetings it soon became clear that there was no intention of translating these sentiments into specific steps. Among the developed countries themselves, the smaller donor countries also seemed frustrated at their inability to influence the attitudes of major donors. Sweden almost felt as if it were the "Cuba" of this club!

At the same time, it is a positive sign that certain new principles have been enunciated ---- for instance, on the question of general preferences. Certain other principles, such as on the volume of aid flows, have been clarified and reiterated. Finally, on preferences and supplementary finance, machinery for implementation has been proposed, although without a precise timetable for action. Thus, the basic purpose of UNCTAD as a forum for discussion and negotiation has not been altogether nullified.

Within the Group of '77', several African countries and some Latin American countries sought to insist on total acceptance of the Algiers Charter. India and Yugoslavia were among those who urged moderation and consensus. Within the industrial OECD countries wide divergences prevailed. France seemed to play a lone game, seeking to embarrass the U.S.A. Germany and Japan were brief and negative in their statements. U.S.A. and U.K. made lengthy statements but were intent on giving away as little as possible. The U.K. hedged most, and on every issue. Sweden, the Netherlands and Canada were forward-looking. The U.S.S.R. and other Eastern Bloc countries were on the whole passive.



To some extent, the Group approach of the Conference may have reduced the scope for hammering out useful compromises across the table among individual delegations. The more reactionary and unyielding among donor countries laid down the guidelines for the "B" Group. Similarly, the more radical and unbending among less-developed countries, in the name of the unity of the '77', tried to get their viewpoint accepted. The UNCTAD machinery will need to free itself of this straitjacket if future deliberations are to be more fruitful.

It is to be hoped that the moderate voices will continue to prevail in the counsels of '77'. It is to be equally hoped that the major donor countries' representatives left New Delhi somewhat chastened by the groundswell of disappointment expressed by the LDC's at the results of the Conference. In that case, they may return to discussions in the continuing machinery of UNCTAD with less rigid and more forward-looking instructions from their governments. The blandly worded resolutions of the Conference could then be given shape and meaning in the coming months and years. Otherwise, the prospect is that disenchantment will turn into resentment, and negotiation will give way to confrontation - confrontation between a strongly entrenched, privileged, and inward-looking North and a weak, populous, and desperate South.

## II Main Recommendations:

The sessions of the committees and working groups were taken up mostly by general statements and did not prove workman-like; a number of resolutions were introduced, but no agreement was reached on any substantive issue. Numerous informal meetings and consultations took place within and between groups of delegations with a view to reaching agreement on various issues, but the results were poor. In the last few days, however, a high level Contact Group of the Conference, comprising a few members from developed and developing countries, assisted by the Secretary General, Dr. Prebisch, worked out the wording of compromises on certain main issues; and resolutions embodying these compromises were adopted by the Conference.

The results of the Conference in terms of the main issues - in Committees I, II and III - are reviewed in the following paragraphs.

Committee I: Commodity Problems and Policies: Little was achieved on commodity problems at this Conference. There was an extended discussion of issues and re-affirmation of known intentions with respect to cocoa and sugar.

The resolution adopted by the Conference recommends that the UN Conference on Cocoa be reconvened not later than the end of June, 1968 and preferably before the end of May. Noting the convening of the UN Conference on Sugar in April, 1968, the recommendation invites the Secretary General and the governments concerned to take steps to reach an international agreement on sugar by the end of the year. It also refers to consultations and



studies concerning oils, natural rubber and fibers. The Conference notes the Rio Resolution and studies by international financial institutions on commodity price stabilization. It emphasizes the important role of the Fund and the Bank Group in helping to solve the financial and development problems arising in world commodity trade. The hope is expressed that these agencies in their studies would concentrate, inter alia, on the problems of financing buffer stocks and diversification.

The Conference did little about buffer stocks, synthetics and substitutes, diversification, pricing policies, access to markets, and special measures for the least developed countries. It merely referred these matters to the Trade and Development Board.

Committee II: Trade in Manufactures and Semi-manufactures: The recommendation on this subject recognizes the unanimous agreement in favor of the early establishment of a mutually acceptable system of generalized, non-reciprocal and non-discriminatory, preferences beneficial to developing countries. To this end, a special Committee on Preferences is established. The first meeting of this committee is to be held in November, 1968; the aim is to settle the details of the arrangements in the course of 1969. After the resolution was adopted, a number of countries including Norway (on behalf of the OECD countries), Belgium, Canada, New Zealand, the United States, Japan and the United Kingdom, made statements entering reservations. No reference is made in the Recommendation to areas of agreement or disagreement on such questions as product coverage, safeguards, and reverse preferences. The U.S.A. served notice that its final approval would be contingent on a timetable for abolition of reverse preferences.

The developing countries were disappointed that no concrete agreements were reached on at least some of the specific issues involved. In particular, the African countries were keen on the inclusion of processed agricultural items. At one stage, it seemed there would be no agreement at all on the subject. Since it was presented from the outset as the crucial issue before the Conference, the Conference itself came close to floundering on this.

Committee III: Growth, Development Finance and Aid: A package of seven resolutions was submitted to the Conference on: Improving the terms and conditions of aid and alleviating the problems of external indebtedness; Improving the mobilization of internal resources; Compensatory financing facility; Increasing the flow of private capital to developing countries; Aid volume target; Supplementary financial measures; and International monetary system. Each of these was voted upon and adopted by the Conference. The Eastern Bloc countries abstained, but Rumania voted for all of them except the one on private capital flows. A note by the Chairman of Committee III on World Bank Group matters was transmitted to the Trade and Development Board, together with a draft resolution that had been submitted on the subject by the developing countries. There is restlessness among LDC's about the functions and working of the Bank Group.



The aid volume recommendation clarifies that the 1% target for the net transfer of financial resources is related to GNP at market prices, but it does not set any time limits. There is also a safeguard clause related to 'certain temporary difficulties'. The Resolution states: "In the view of developing countries and some donor countries, this target should be achieved by 1972; some other donor countries stated that they were prepared to meet this target either by this date or at the latest by 1975; all the other donor countries do not feel able to accept a precise date". The position is similar on the question of indicating a minimum for net official transfers.

The resolution on supplementary finance reaffirms the objectives and principles set out in 1964 at UNGTAD I. It refers to the need for providing reasonable assurance of help to protect a country's development program against export shortfalls. It is also decided to continue the Intergovernmental Group to consider various issues further and draw up a scheme. The Group is instructed to report to the IEB as early as possible, and no later than the Ninth Session of the Board (late 1969). The terms of reference of the Intergovernmental Group are wide. Dr. Prebisch stated at the Conference that, in the high level Contact Group, in reply to a query by a LDC representative, three representatives of developed countries clearly stated that the Bank staff scheme was not superseded or set aside by this Resolution.

Denmark, speaking on behalf of the Nordic countries, recalled that they had come to the Conference with the hope that the principles elaborated in the World Bank staff scheme and the IGO Report would be accepted; they would do everything possible in the future work of the Intergovernmental Group to make this a reality. The deep disappointment of the developing countries was expressed by Brazil and Ceylon, on behalf of the Group of '77'.

---

✓ France, Netherlands, Sweden

N.A. Szwarc  
4/5

## OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: February 28, 1968

FROM: D. L. Budhoo SUBJECT: Mr. Woods' Query on Mr. Rostow's Speech

In attempting to find out the origin of Mr. Rostow's idea and to glean whether anything had previously been published on the subject, I consulted the Public Affairs Information Service Bulletin - a catalogue which is published both on a monthly and yearly basis and lists all books and articles written over the time period referred to. The report entitled "Foreign Aid Through Private Enterprise" was the only publication emanating from the U.S. Administration on the subject; Mr. Rostow's proposal seemed very much in line with the recommendations of the Committee - indeed it seems to me that the proposal flows from their analysis and recommendations. Please note that the Committee was appointed by and reported to the Agency for International Development.

In the Public Affairs Information Service Bulletin and from inquiries from Mr. Delaume of the Bank I obtained other references dealing with various aspects of the subject - e.g. Professor Faturo's book on Government Guarantees to Foreign Investors (1962), Mr. Delaume's publication on the Legal Aspect of International Lending and Economic Development Financing (1967) and an article by S. Williams entitled "Private Investment in World Agriculture" (claiming that during the next several decades the only large and continuing overseas outlet for private capital investment piling up under U.S. management may be in agriculture in Latin America, Asia and Africa). I ignored these references in my note to you since I did not regard them as having a direct bearing on Mr. Woods' question.



Statement by Eugene V. Rostow, Undersecretary of State for  
Political Affairs and Chairman of U.S. Delegation to the Conference

A. Points from Speech

- (1) It is, and will continue to be U. S. policy to work with others in accordance with the principles of the U.N. Charter to end the spectre of poverty which haunts the world. We (U.S. and other nations) must act, and act together, simply because we have finally come to believe that poverty is wrong and that for the first time in human history science makes it possible to right this wrong.
- (2) U.S. concurs with Secretary General's outline of the development problem and his prescriptions for remedial action. But problems great: rate of economic progress in past spotty and too slow in most countries. Moreover, when consider per capita, real product situation indeed sober. If success in the development process is to be a reality need two-pronged program - for economic growth and family planning.
- (3) Present UNCTAD session must give fresh impulse to process of development. That impulse should flow naturally from the agreement of our governments to harmonize their policies in a number of areas identified as critical. We define our goals as the acceleration of development within the framework of a growing and progressive world economy, governed by the principles of international division of labor. We should avoid solutions that would isolate the developing countries from the world economy.
- (4) Need for reform of strategic elements of world economic system: international balance of payments adjustment mechanism; further reduction in barriers to international trade. With regard to latter, present conference will consider proposals for a new system of generalized tariff preferences for the developing countries in markets of developed countries. If can reach agreement, will have opened up important new opportunities for investment and expansion in economies of developing nations.
- (5) Specific matters discussed:
  - (a) Food supply problem. Urgent concerted effort needed to modernize and accelerate agricultural development in developing regions.
  - (b) Question of trade in manufactured and semi-manufactured goods (categories where developing countries have a growing competitive edge). Developed countries should do their best to ensure that export growth in these fields from developing countries is sustained.
  - (c) Although developed countries in better position to take advantage of Kennedy Round, developing countries should make every effort to seize whatever opportunities were opened up to them.

- (d) U.S. supports temporary system of generalized trade preferences for developing countries. Regard special preferential trading arrangements between certain developed and developing countries as harmful - they would divide the world into trading blocs; have unfortunate political and economic effects. Plea for regional markets through greater regional economic cooperation, customs, unions, etc.
- (e) Commodity problems difficult. Instability due to a number of causes. In some cases commodity agreements practical and helpful (cocoa, coffee). In others (where subject to replacement by synthetics) diversification needed.
- (f) Financial assistance. Most important development here is international coordination of many programmes of international assistance. World Bank has taken lead through consortia and consultative groups. Also, augmentation of resources to developing countries through IDA and increased drawing rights on IMF. IDA replenishment soon. Other U.N. specialized agencies are helping too to augment resources of developing countries. During past eight years, (1960-1967) inclusive, the U.N. and specialized agencies, not including the World Bank complex, have spent almost \$3 billion, mainly on activities related to the development and welfare of the developing countries with U.S. contribution accounting for 40%. Bilateral programs too have been enlarged. Due to its international responsibilities, U.S.A.'s aid targets not met in recent years. U.S. Balance of Payments too in bad shape. But doing our best to minimize the effects on developing countries of the measures we have been obliged to take in recent weeks.
- (g) Role of private resources important. The Conference should devote considerable part of energies to finding practical ways to attract larger flows of private resources from the industrialized countries to the task of development.
- (h) In connection with (g) author proposes what he calls "an additional idea" - i.e. Conference could launch an inquiry into the legal and policy framework within which private investment and private entrepreneurship are drawn into the development process.



B. Mr. Woods' query

Mr. Woods has asked about point (h). My enquiries reveal that Mr. Rostow's thesis that private investment and private entrepreneurship be drawn into the development process (the former he regards as "indispensable factors of growth") and that a comprehensive enquiry be launched to ascertain ways and means of accomplishing this objective is the direct result of a line of thought developed in the July 1965 Report of the Advisory Committee on Private Enterprise in Foreign Aid entitled Foreign Aid Through Private Enterprise. This Committee was headed by Arthur K. Watson, Chairman, IBM World Trade Corporation and included among others Ernest C. Arbuckle, Dean, Graduate School of Business, Stanford University, Henry T. Heald, President, the Ford Foundation and Murray A. Wilson, former President, National Society of Professional Engineers. A summary of the Committees findings and recommendations is attached as Appendix 1.

Mr. Woods' queries on other speeches

1. Statement by Professor Dr. Karl Schiller, Minister of Economic Affairs of the Federal Republic of Germany on February 5, 1968.

page 9: Professor Schiller states that his Government is following with interest the **Supplementary Financing Scheme** and will cooperate in a constructive spirit in the further deliberation of this problem.

I presume that Mr. Woods points this out to you as a matter of general interest. I suggest also a look at paragraph 3, page 8, on debt burden of developing countries.

2. Statement by the Rt. Honorable Anthony Crosland, M.P., President of the Board of Trade.

Commodity stabilization: page 5: Mr. Crosland states that progress on product by product agreement slow and difficult. He therefore welcomed moves for more general measures to sustain and stabilize the earnings of developing countries from their commodity exports. While he awaited with interest the work of the Bank/Fund on commodity exports (Rio terms of reference) he feels that countries must press on with the **Supplementary Financing Scheme** to mitigate the effect of sudden and unforeseen shortfalls in foreign exchange earnings from the sale of primary products. Unfortunate that no agreement on a generally acceptable scheme yet in sight; Bank proposed scheme may have to be amended still further. Hope that conference will advance significantly the date by which such a fund becomes a reality.

I presume that Mr. Woods points this out to you as a matter of general interest.

3. Statement by Mr. Michel Debre, French Minister for Finance and Economic Affairs on Monday, February 5, 1968.

page 7: Specific interpretation of sacrifice by developed countries which must be made in the name of international solidarity. Developing countries must understand that the transfer of wealth they are asking for can only be made at the expense of slowing down the rate of social advance in the countries which are prepared to accept the sacrifice.

page 14: France contribution to the development effort exceeds 1% of its national income, and France willing to increase this figure.

But urge that two recommendations be taken into consideration - i.e.; the organization of commodity markets and technical cooperation and the development of human resources.



On commodity markets France thinks that there is no single type of solution; agreement for each commodity necessary adopted to its particular characteristics. Without running counter to technical progress there is nothing to prevent us from searching for stabilization agreements by which uncontrolled fluctuations can be avoided. Aware of technical difficulties, but these can be overcome if political will is there (as in case of the International Wheat Agreement).

Mr. Woods has asked for **information** on the International Wheat Agreement. I am preparing a short note and will submit it to you tomorrow, February 28.

Summary and Conclusions: Report entitled "Foreign Aid Through Private Initiative" (Report of the Advisory Committee on Private Enterprise in Foreign Aid, July 1965)

---

Foreign aid, unless it is amplified by private initiative, is doomed to be a costly palliative that will go on indefinitely. The fundamental difficulty lies not in the idea of foreign aid, nor its execution by the Agency for International Development, but in the vast gap between the human and financial resources actually going into the developing nations and the resources they need to grow at an acceptable rate.

In overall terms, the Committee's recommendations are directed to two general areas where government initiative can stimulate the private sector:

Capital - Government should seek to stimulate the flow of direct and indirect investment to the developing countries through tax incentives, expanded insurance coverage plus various programs recommended to improve the investment "climate" in these countries.

Human resources - Through organizational changes and subsidy, AID can tap the vast reservoir of private technical and institutional skills in the United States.

The capital gap alone has been estimated at between \$5 and \$20 billion annually. Since no conceivable increase in government financed foreign aid is likely to fill all of this gap, the Committee concluded that the private sector must fill it or it will not be filled. Our full panoply of the private sector: business, labor organizations, educational institutions, professional societies and foundations, must be committed more fully to economic development. The Agency for International Development, far more than it does now, must act as an energizer and catalyst for private effort.

United States business' commitment in the less developed countries is extensive. But most of this is in extractive industries and the rate at which Americans are investing fresh capital in the developing countries is modest. Unless investment is deliberately stimulated, the Committee sees no reason to expect this rate to increase very much.

There are reasons, real and imagined, why business today is limiting its commitments in the developing world. For one thing, markets in these countries are small by American standards. To some degree, also, promising opportunities are simply overlooked by American business. The overwhelming reason, however, is that business finds a difficult "climate" for enterprise in the developing world.

Inflation, to greater or lesser degrees, is common to nearly all developing nations. Systems of business law and regulation are outmoded, capital markets are rudimentary, and there is, nearly everywhere, political risk. Legend notwithstanding, alleged high profits are not offsetting these hazards.

### Increasing the flow of private capital

Obviously, if business is to augment vastly its investments in the developing countries the odds must change - there must be less risk of loss and greater prospect of profit.

To some degree, the Committee concluded international agreements will help. It recommends that the United States ratify the proposed Convention for Settlement of International Disputes and that it support an investment code under international sponsorship. It is also urged that AID support large scale feasibility studies and investment promotion programs to interest more American investors in developing country opportunities.

But, the high risk and relatively low profit in the developing countries must also be confronted directly.

To offset the risks, the Committee recommends, among other things, that tax law be amended so that losses suffered by American-owned subsidiaries in developing countries can be offset against profits earned elsewhere. The Committee, in addition, endorsed the tax credit proposal which gives investors a 30 per cent credit, applied against U.S. tax liabilities, on investments made in developing countries. This credit would apply to portfolio as well as direct investments.

Of great importance, the Committee also urged that the cost of Selected Risk Guaranties be reduced and that the Extended Risk Guaranty program be greatly expanded. Both types of insurance would be made available to portfolio investors as well as direct investors.

Specific Risk Guaranties insure American owners against three categories of risk; the inconvertibility of currencies (though not devaluation), nationalization and confiscation and losses from war and revolution. Extended Risk Guaranties offer broader coverage and can be used, in fact, to insure investors against nearly all risk. It has been used only cautiously to date.

Guaranties could be a major inducement to business and could, for the first time, enable American institutional lenders to use a portion of the vast sums they manage in the developing economies.

There are, of course, ideological objections to full Guaranties and the very practical objection that they may one day result in large claims against the Treasury. Nevertheless, the Guaranties properly administered are likely, in the judgment of the Committee, to be less costly than alternative means of achieving economic progress and are one of the few tools available that could make a major difference.

Capital is scarce, and interest rates are high in developing countries and long term loans, at less than the most elevated rates, are virtually unknown. This impedes the growth of private enterprise, and the Committee believes the situation can be improved.



For one thing, it urges that the Federal Reserve Board recommendations on foreign lending, designed to protect our balance of payments position, not be allowed to penalize the less developed countries. Indications are that U.S. banks, in complying with the Board's recommendations, are not lending as freely as they might in the less developed countries. The Committee believes that development must be given priority over the balance of payment impact. It does not think the impact from loans to less developed nations will be very great.

The less developed countries need a wide range of modern credit institutions, from development banks and credit unions, to underwriters. It is recommended that an international technical assistance program be created to help establish these institutions and train their personnel. American expertise would be useful, but in many instances the experience of countries such as Japan and Mexico, which have successfully established some unorthodox institutions, will be more relevant to the problems of the less developed countries than our own.

To get more capital into private hands in the developing countries, the United States Government is also urged to approve a proposal that would permit the International Finance Corporation to borrow \$400 million from the World Bank. At the same time, AID is asked to use more of its surplus local currencies (money earned mostly from the sale of surplus U.S. food) to broaden the capital bases of financial intermediaries in the less developed countries.

#### Human resources

While capital is scarce in the less developed countries, the more subtle and difficult shortcoming is human and institutional. The most basic problem in the whole development effort is that of transferring skills and technology, and to some degree attitudes, to individuals and institutions in the less developed countries.

One way to expedite this, the Committee concluded, is to subsidize the export of technical assistance to institutions in the developing countries. The labor union or business receiving the help would pay what would be a reasonable amount by local standards, and AID, through subsidy, would make up the difference.

The Committee also recommends that U.S. exporters of technical and professional services be made eligible for the same financing and guarantying facilities from AID and the Export-Import Bank that exporters of tangible goods now receive.

Special attention was given to the role of agriculture in less developed countries because the race between population and food supply must be won before significant overall development can begin. In many less developed countries, up to 80 per cent of all workers are in agriculture. The key to progress in that sector is not only direct transfer of new production techniques, but a judicious combination of



new technology, capital transfer, accelerated appropriate public research, and technical assistance in building institutions in the credit, education, health and cooperative marketing and purchasing fields.

While the Committee did not attempt to appraise the operating efficiency of AID, it made several suggestions to better integrate the public and private sectors for more rapid economic development.

For one, it recommended that AID expand its staff of private enterprise professionals in Washington and in the field. It pointed to the need for a new private sector representative within AID. He would be a man of sufficient stature to command the respectful attention of the non-government community and within the AID organization.

The Committee also recommended that proposals for one or more quasi-private organizations for technical assistance be formulated for presentation to Congress next years.

Such institutions, the report suggested, might receive funds from Congress, on contract from AID, from private sources such as foundations, and from foreign governments. They would at the outset perform three specific functions: (1) the administration of technical assistance programs in countries, such as some of the oil-rich nations, which do not receive foreign aid in the usual sense or where AID programs are being terminated but which do need help in the upgrading of their human resources; (2) the exchange of plans and information among United States foundations, universities, professional societies and charitable and religious organizations regarding their activities in the less developed countries; and (3) the maintaining of contacts with non-profit organizations in these countries.

The job of economic development is vast, and at times disheartening. Nevertheless, the Committee believes that our interests are best served by building up the productive capabilities and democratic institutions of the less developed countries. What Americans do demand, and what they are entitled to have, is the assurance that their resources and support are applied with intelligence, skill and dedication.

ROUTING SLIP

Date  
Feb. 20, 1968

OFFICE OF THE PRESIDENT

Name	Room No.
1. Mr. Woods ✓ 2/20	
2. Mr. Demuth <i>[Signature]</i>	
3. Mr. Friedman	
4. Mr. Lejeune <i>[Signature]</i>	

<input type="checkbox"/>	To Handle	<input type="checkbox"/>	Note and File
<input type="checkbox"/>	Appropriate Disposition	<input type="checkbox"/>	Note and Return
<input type="checkbox"/>	Approval	<input type="checkbox"/>	Prepare Reply
<input type="checkbox"/>	Comment	<input type="checkbox"/>	Per Our Conversation
<input type="checkbox"/>	Full Report	<input type="checkbox"/>	Recommendation
<input checked="" type="checkbox"/>	Information	<input type="checkbox"/>	Signature
<input type="checkbox"/>	Initial	<input type="checkbox"/>	Send On

Remarks

*RBS*  
R.B. Steckhan

From



EDW / IBM  
2 - 20-68

Address by Mr. David Horowitz, Governor of the  
Bank of Israel, at the UNCTAD Conference in New Delhi

(February 1968)

The Fate of Humanity

What is under discussion in this Conference is the peace of the world and the fate of humanity.

There is a correlation of deterioration of economic conditions in developing nations, of stagnation and deceleration of economic assistance, with the escalation of international tension, unrest and instability in what are defined as the 'developing nations of the world'.

In the last twenty years, no shooting war has occurred in the developed world, while two-thirds of humanity - the teeming millions of Asia, Africa and Latin America - are seething with disquiet, tormented by internal and external collisions which threaten mankind with a world conflagration. Well over a dozen wars and revolutions in Asia, Africa and Latin America have exploded during that period and in some of the countries, indeed, the fire of clash and conflict is still blazing

Unrest and instability are the direct consequence of despair and despondency. The population outburst, deterioration of terms of trade, the debt explosion, the spectre of famine on the horizons of the developing nations - all combine to perpetuate the present gap between one-third and two-thirds of global population and to aggravate the prevailing



Address by Mr. David Horowitz, Governor of the  
Bank of Israel, at the UNCTAD Conference in New Delhi

(February 1968)

Handwritten notes in the top right corner, including the word "Favor" and some illegible scribbles.

The Fate of Humanity

What is under discussion in this Conference is the peace of the world  
and the fate of humanity.

There is a correlation of deterioration of economic conditions in  
developing nations, of stagnation and deceleration of economic assistance,  
with the escalation of international tension, unrest and instability in what  
are defined as the 'developing nations of the world'.

In the last twenty years, no shooting war has occurred in the  
developed world, while two-thirds of humanity - the teeming millions of  
Asia, Africa and Latin America - are seething with discontent, tormented  
by internal and external collisions which threaten mankind with a world  
conflagration. Well over a dozen wars and revolutions in Asia, Africa  
and Latin America have exploded during that period and in some of the  
countries, indeed, the fire of clash and conflict is still blazing.

Unrest and instability are the direct consequence of despair and  
despondency. The population outbreak, deterioration of terms of trade,  
the debt explosion, the spectre of famine on the horizon of the developing  
nations - all combine to perpetuate the present gap between one-third  
and two-thirds of global population and to aggravate the prevailing

Stamp: FEB 20 1968 11:29



economic conditions, with their concomitants of hunger, disease and ignorance. How can the developing world cling to any hope of rescue and salvation if the real economic growth per head of its peoples is so low that it would require more than a generation to double the present per capita income there, an income of the magnitude of \$100 per year, a pittance that is too much to die and too little to live on in dignity?

The tragedy is that this situation can be remedied only by a massive transfer of capital, but the developed nations are reluctant to project to the world arena their own domestic solutions of a Welfare State and redistributive taxation. The divergent trends of destitution in the less developed countries and inflation and tight capital markets in developed ones, the polarization of prosperity and famine, could only be eliminated, or at least curbed, by an all-out war on world poverty, by a marriage of modern economics with modern technology.

#### The Strategy of Development

The two main problems - the danger of famine, and standards of incomes below subsistence levels - can be solved by a rapid and tremendous rise of agricultural output and accelerated industrialization

of the developing world.

Evidently, the supply of food merits the highest priority against this gloomy background

With modern technology there is no doubt that agricultural production can be quickly, even spectacularly, multiplied. I shall take the liberty of quoting the experience of my own country, which in this connection is even more instructive, as the results in growth and production were achieved by a population predominantly inexperienced in agriculture, that had to undergo an occupational reshuffle, in an arid country with scarce natural resources, particularly of water. They were obtained mainly by the application of capital, know-how and science. Israel's agricultural production went up in one decade, from 1955 to 1965, by 156 per cent in real terms, while employment in agriculture went up only by 6.5 per cent.

If agricultural production of the developing nations could be expanded by 1985 at the same rate at which Israel's agricultural production was, by almost 8 per cent per annum, the projected gap between the rising demand for foodstuffs and supply could be closed and the standard of nutrition substantially improved. On the other hand, 50 per cent of the persons now employed in agriculture would



be released for industrial production. The millions of farmers freed from agriculture by larger productivity in developing countries, by an agricultural revolution that raises output, could be transferred to activate production in other sectors, first and foremost in industry, and so augment the wealth of nations. This overflowing reservoir of manpower is now being wasted.

The strategy of economic development in the two directions of rapid expansion of farming and of the production of food, and industrialization of the economies of the developing nations is, however, contingent on a global economic policy which would foster it. The key to the integrated approach to agricultural development and industrialization is the provision of capital and skill, the combination of economic and technological progress. The scope and quality of investment are the way into economic growth and development. The degree of investment at the present juncture will determine the gross national product and the level of incomes of the developing countries some years ahead.

From this point of view the race of the developing countries against time, the race to narrow the gap between them and the developed nations, cannot be won with investment per head at its present level.



The Investment Gap

According to our calculation, the yearly net capital investment per head - at the present juncture - is \$213 in the developed countries and \$17 in the developing States, which means a ratio of one to 12.5, which - if perpetuated - is a most depressing outlook for the future.

The problem of capital supply is, therefore, the crucial one for the developing part of the world.

While, in the 18th and 19th centuries, there was no alternative in the West to internal formation of capital, today such an alternative exists - the simple device of transfer of capital. In a later period, the hardship of primary accumulation of capital was remarkably mitigated - by transfer of capital from more developed countries - in such new areas as the United States, Canada and Australia. The resources are available. Furthermore, there is an excess of production capacity in the West. The periodic recessions in the developed economies mainly affect industries producing capital goods, reducing their output four to five times below that of other industries. A transfer of capital to developing nations, particularly in periods of recession, would help to iron out the violent fluctuations of boom and depression in the industrialized world.

At the present moment, the transfer of capital is stagnating at some \$10 billion a year net. Such stagnation is practically tantamount to retrogression, considering: 1) the rapid rise of population in the developing nations, which reduces the capital transferred per head of population: 2) the secular decline of prices of primary products and the mounting prices of capital goods and industrial products, which erode the real value of the capital transferred. The amount of capital itself will decline under present conditions, with the growing burden of debt repayments.

One of the delusions which have to be dispelled in this connection is that the problem of the developing world can be solved by private investment. In the report of the DAC there is the following statement:

"Unfortunately, it appears that the increase in official net disbursements was more than offset by a reduction in private investment. This decline has taken place despite increased efforts by governments in various developed countries to encourage foreign investment."

Private capital is not attracted to investment in those countries because of low profitability, shortage of skilled labour, lack of scientific facilities, limited internal markets and higher risk.



Thus, governmental and international economic assistance becomes an important instrument for the transfer of capital from developed to developing nations, but it is actually declining measured both by the needs and by the capacity of the developed nations.

The World Bank estimates the capacity to absorb in developing nations investments productively and usefully at \$3 to \$4 billion per annum over and above the present amounts of capital transfers.

As far as the capacity of the developed world is concerned, the following data reflecting the share of economic assistance within the GNP of the developed world are illuminating: out of a GNP of the developed part of the world of at least \$1565 billion in 1966, the amount devoted to the development of the developing nations was \$9.7 billion, or less than two-thirds of one per cent.

Moreover, a certain proportion of that amount consists of commercial credits, such as the financing of exports and other similar short-term devices.

The decline in aid to developing nations as a share of the GNP of the developed world bears testimony to frustration, futility and failure in this crucial period of human endeavour. Here are illustrating



statistics: whereas in 1962 the flow of financial resources to the developing world constituted 0.76 per cent of the GNP of the developed countries, in 1963 it declined to 0.70 per cent, in 1964 it further dropped to 0.69 per cent, while in 1966 it fell to as low as 0.62 per cent.

### The Flow of Capital

In the light of these figures the problem confronting us becomes even more acute. Where is the capital to come from? Internal formation of capital is necessarily limited by the low level of incomes per head in developing nations.

Moreover, a cruel extraction of every ounce of possible saving from the undernourished peoples in the developing nations is painful in present conditions, while the world yields immense increments of GNP, aggregating at least some \$60 billion per year.

As it is, domestic formation of capital takes place - in respect of up to four-fifths of the total investment - in developing nations but this must be supplemented to a much greater degree by transfer of resources from the developed world, particularly so as modern technology necessitates investment of large amounts of capital. Even with the massive transfer of resources development is a long and arduous road,

but it is, among other factors, primarily a function of capital investment.

Most of those countries, like Iran, Israel, Korea, Malaysia, Mexico, Pakistan, Taiwan, Thailand, Tunisia, Venezuela and Yugoslavia, which were catalogued at the last meeting of the Board of Governors of the World Bank by President Woods as successes in economic growth, are clear testimonies that investment, although not the only condition, is one of the main preconditions of development.

The flow of capital to developing nations as a share of the GNP is, as I have shown, on the downward grade. The debt explosion will add momentum to that process of erosion of aid. Already today, about half of the financial assistance to developing nations is absorbed by repayment of debts, principal and interest. Some time in the seventies a zero hour will strike, when repayment of debt and interest payments will become equal to the rate of that assistance to developing nations if the flow of capital is not increased. The developing nations are nearly saturated as far as credit on commercial terms, even those of the World Bank, is concerned. Their creditworthiness is severely affected by the burden of debts and may be affected even more if the device of rescheduling is applied. The plain implication is that grants or concessionary terms of loans are imperative if a complete invalidation of aid is to be avoided.



Obviously, more and not less investment is required if the developing world is ever to catch up with the developed world.

Investment, however, depends largely on capital flow and economic growth is the function of investment.

A new myth is now being propagated - that what is needed is not capital, but skill and know-how. I am far from minimising the importance of technical assistance, but it should not be used as an excuse or substitute for a diminishing capital flow. The very fact that technical assistance requires less capital is helpful in advancing this very important development activity. Within four years, technical assistance increased by some 65 per cent and capital transfers by only 8 per cent. Technical assistance should not become a form of relieving and lightening the guilt complex of the developed world. Capital transfer remains the central problem of the economic growth of the developing world and the disparity between the demand and supply of capital is doubtless due to the fact that the direction of the flow of capital is presently at variance with humanity's global needs and contrary to what is desirable from that point of view.

The question of flow of capital is a clear-cut case of priorities. Some \$39 billion of domestic fixed-interest securities are launched on the capital markets of the world, plus some \$3 billion of international and foreign securities. According to the UNCTAD Secretariat Report:

"during the period 1960-66, there has been a substantial increase in the volume of net issues by both the public and private sectors of these countries. Public and private borrowing on a net basis rose from approximately \$16.7 billion in 1960 to \$39.2 billion in 1966."

The share of developing nations in that gigantic accumulation of capital is negligible, and limited to two or three countries with special conditions.

The 1967 Review of the OECD, "Development Assistance, Efforts and Policies", puts the case in unequivocal and striking terms:

"The problem for the Members of DAC is essentially one of the degree of priority which is being given to aid. Governments may consider as obstacles to increases of assistance such conditions as balance of payments difficulties, fear of overheating the economy with resultant inflation, and budgetary limitations. The last item is merely a polite way of saying that domestic claims such as more roadbuilding, agricultural support, defence, space exploration, or more generous social security scales take priority."

"The problem for countries wishing to provide assistance is also, like that of the recipients, essentially political."



It cannot be maintained that a one per cent allocation from a GNP of some \$1650 billion in 1967 would be a heavy burden on the developed and wealthy world, which is getting richer every year. Yet it would nearly double the capital flow of the year 1966. This is really far from crying for the moon.

In the light of the present experience of budgetary allocations, it seems well-nigh impossible to augment aid substantially by the simple method of State grants. Even the World Bank and other institutions could not obtain a billion dollars or more a year in such budgetary allocations, which have to gain priority within a political framework of democracy. The activity of these institutions becomes possible through access to the capital markets of the world for the benefit of the development of developing nations.

Those nations are barred from access to the capital markets by lack of security, and by high interest rates which they are unable to pay. The second impediment has become even more pronounced in the last few years, with the rise in interest rates. Among the arguments against providing for access by developing nations to the capital markets of the world are their tightness and the high cost of money. But, this is a double-edged sword and cuts both ways. These conditions make it more

imperative than ever to provide special facilities for the developing nations: otherwise they have not the slightest prospect of raising funds on those markets.

As I have observed, this is first and foremost a question of priorities. We simply do not believe that every one of the \$42 billion of internal and external issues presently floated on the capital markets of the world has, from a global point of view, absolute priority over the needs of the developing parts of the world.

#### The Horowitz Proposal

The Horowitz Proposal is designed to overcome the difficulties of access of the developing nations to the capital markets.

An accurate summary of the proposal is given in the Report of the UNCTAD Secretariat as follows:

"The proposal rests on the generally accepted premise that the flow of aid to developing countries needs to be greatly increased and that the terms of assistance have to be softened considerably so as to permit an adequate net transfer of resources to developing countries and also to prevent explosive debt situations from emerging. It further assumes that because of budgetary constraints there are limits to the growth of official aid flows but that the requisite resources for aid can be found in the capital markets of



developed countries. Since funds on the capital markets can only be raised on commercial terms, there is need for subsidies to make these funds available on soft terms to developing countries. Thus the proposal envisages an international institution raising funds on national capital markets of developed countries on normal commercial terms and relending these funds through the IDA to developing countries at low rates of interest for a suggested period of thirty years.<sup>1)</sup> The difference between the cost of borrowing to the institution and the lower rates of interest on lending would be covered by an 'interest equalization fund'. The resources for this fund would be obtained through budgetary allocations of the developed countries to the IDA, through the allocation of some portion of net income of the World Bank, or through some combination of both methods."

I am more confident than ever today that the Proposal, perhaps with some modifications, will be implemented in the course of time and I have three reasons to substantiate that optimistic view:

First - the plan was practically adopted in its entirety in Algiers by the 77 nations, and is incorporated in the "Algiers Charter" in Chapter C - "Development Financing", paragraphs (b), (c) and (d), although for reasons rooted in prejudice and in no way relevant to the subject under discussion, its authorship

---

1) The international institution concerned could be the World Bank or IDA itself. The funds raised would be additional to those required by the Bank for its normal transactions and the resulting obligations would be backed by new and independent guarantees.

somehow disappears in the resolutions of that body. I hope that the authorship will not constitute a hindrance for some countries to support the plan. At all events, the fact that it was adopted in Algiers is flattering and a tribute to its soundness.

Second - the brilliant Report on the plan prepared by the UNCTAD Secretariat bears eloquent testimony to the possibilities inherent in it. I shall take the liberty of quoting some of the statements in the Report:

"30. The creation of an interest equalization fund, as the Bank staff study pointed out, raises no particularly difficult technical problem . . . ."

32. " . . . Both the interest equalization fund and the institution of an appropriate system of guarantees present no serious technical problems. It is now generally recognized that there is a need to improve the functioning of capital markets in order to facilitate and to increase the transfer of savings into long-term investment. If such improvements take place, and if the vast institutional savings which flow into capital markets continue their annual rates of increase, it would be reasonable to assume that significant amounts of resources could be raised for re-lending to developing countries at low rates of interest."

Third - some conclusions can be drawn from the attitude of the developed nations to the system of trade preferences. At the UNCTAD Conference in 1964, most of the developed nations still firmly opposed any system of preferences. I understand that this opposition has been



mitigated during the interval and that there is a well-founded hope that some such system will be adopted at this Conference and implemented on the strength of a general consensus. Relentless pressure for enlarging the flow of capital to developing nations and for implementation of the Horowitz Plan should, in the course of time, have the same effect.

New ideas have their way of penetrating the armour of prejudice and outworn economic thinking. Prudence and circumspection should not spell out inertia, rigidity of concepts and ultra-orthodoxy.

Analysis of the capital markets provides incontrovertible evidence that they should be capable, on the basis of priority, of allocating some share of the amounts raised by fixed-interest bonds for stimulating the growth of developing nations.

Here again I would like to quote from the Report of the UNCTAD Secretariat:

"21. The foregoing account makes it clear that during the 1960's there has been significant growth in the capital markets of developed countries. It is of course true that many of these markets have been faced in recent years with tight conditions. But this is because the demand for long-term funds has increased even faster than the supply."<sup>1)</sup>

---

1) EEC Commission, the Development of a European Capital Market, report of a group of experts appointed by the EEC Commission, November 1966, p. 15.

All that, of course, provided the flow of capital to developing nations is not considered as residual after satisfaction of all other needs, more or less urgent.

It is decidedly preferable to enable the developing nations to buy money on the market on conditions compatible with their capacity to repay than to rely entirely on taxation for provision of the required capital. It is an illusion to suppose that, in a democracy, taxation sufficient to provide assistance to other nations is a realistic concept. Experience of the extent of capital flow to developing nations, and particularly so IDA replenishment, attests to the truth of this contention.

Our point of departure is that money is always available at a price, if the proper collateral and interest are forthcoming. The Horowitz Proposal is meant to build that bridge of a collateral and of concessionary terms for the borrower, and a reasonable yield for the lender, by making it possible to borrow hard and lend soft.

Under present conditions, even the exemption from the interest equalization tax extended by the US Government to the developing nations on the US capital markets could not be utilized and only two developing nations were able to make their way into the free capital markets.



The Proposal has the following advantages:

First - it has a multiplier effect. By relatively small amounts and a system of guarantees, it sets free very substantial amounts of capital. It would work like an ignition spark, which liberates energy far beyond the spark itself.

Second - it provides for concessionary terms. The terms of loans extended to the developing nations are not less important than the scope of assistance. The snowballing effect of repayments, we repeat, could nullify the effect of any flow of capital to developing nations. Accumulating debt repayments are the time-bomb in that flow and that is the reason why provision of funds for the IDA should have priority over all other channels of aid.

Third - it provides for a multilateral flow of capital and precludes the attachment of strings to economic assistance.

Fourth - it provides for an access to capital markets. These markets are expanding and will expand even more with the growth of the GNP of the developed nations, and progressively with the perfection of their mechanisms, particularly in Europe. If a multilateral institution serves as an instrument to facilitate the access of the developing nations to them, it will make for a constant flow of capital independent of political and temporary decisions.

Fifth - it is flexible and represents a middle path between direct private enterprise, which has failed so far to ensure the necessary flow of capital, and the tedious and difficult method of direct budgetary allocations.

However I am aware of certain difficulties of some developed countries, which apparently may impede the implementation of the proposal. This problem has been pointed out in the survey of the UNCTAD Secretariat for the Third Committee: "Issues and Proposals" where it says:

"One of the principal difficulties hitherto encountered in obtaining support for this (the Horowitz) scheme lies in the fact that some of the most highly developed capital markets are to be found in countries currently under the heaviest balance of payments pressure".

I am aware that the proposal will be put into effect only if we can mobilise the full cooperation of the developed countries, which will have to bear the burden of the aid. In order to ensure this cooperation, it seems advisable to introduce a marginal amendment to the proposal.



The essence of such an amendment, without going at present into its technicalities, would be an allocation of loans raised in the frame of the Horowitz Proposal, which would ensure that the total of the loans authorised, and spent, by recipient countries be composed of the various currencies in accordance with their representation in the fund.

Thus, even the problem of the balance of payments difficulties could be met by this device, similar to the suggestion made by the President of the World Bank with regard to IDA replenishment. This procedure could be applied to provide for a co-ordination of the use of the equivalent of sale of bonds in the various countries, with purchases in their markets if balance of payments difficulties made it necessary. This system would escape the pitfalls and shortcomings of tied aid, as it would apply to timing only, and would prevent the repercussions of tied aid on prices and terms.

If the Interest Equalization Fund envisaged in the Horowitz Proposal be accepted, it is important to mention that this would have no bearing on the balance of payments problem, as the interest subsidy would be paid to the bond holders who are citizens of the country providing the subsidy. It would mean only an internal shift of income.

The Interest Equalization Fund could be fed by Government grants, the surplus profits of the World Bank, and/or allocations from funds created by the IMF through the mechanism of the special drawing rights. If these sources are taken into account, together with the fact that the total sum is quite modest - \$50-60 million per annum for each billion dollars of transfer of capital to be raised by the whole developed world, and that the Fund would not encumber the balance of payments at all, there should be little difficulty in arranging such a facility.

As to the security offered for the bonds sold on the market, the equivalent of which would be lent to IDA, there is a wide range of possibilities to provide such collateral. Some of them are amply explained in the Report of the UNCTAD Secretariat.

Moreover, even a conservative body such as the Joint Economic Committee of the US Congress suggests that "the International Development Association be financed in part by the conventional national contributions and in part by IMF purchases of IDA bonds, guaranteed by the World Bank, with a portion of the new reserve assets."



The implication that the capital of the World Bank is sufficient to provide such a guarantee is evident. As already mentioned, this guarantee could be supplemented by additional guarantees of the developed nations as suggested in the Report to the UNCTAD Secretariat.

The most specious of the arguments advanced against the implementation of the plan is that of the tight money market. The money market will always be tight, as long as the curve of economic activity is rising; its tightness can only be relaxed under conditions of recession.

A stagnant economy with a reduced demand for capital, would readjust the supply and demand of funds on the capital markets on a lower level. Is that really desirable? The palpable correlation of accelerated economic growth and tightness of capital markets, caused by added demand for capital, results in a paradoxical situation, in which we are told that, the greater the prosperity and the increment of the

GNP of the developed world, the more restricted the possibilities for augmenting the capital flow to developing nations, because prosperity, full employment and rapid economic growth are correlated with tight money markets. I confess to an intellectual inadequacy to grasp that kind of reasoning. The answer, naturally, is to be found in the allocation of priorities.

Moreover, one can always make the markets tight by economic policy, which enlarges effective internal demand and investment in the highly-developed nations. Growing demand and investment are, to a very great extent, a function of policy and can be escalated at will.

The Report of the UNCTAD Secretariat shows that capital markets expand, particularly in Europe, even for international issues. But all this extra capital is diverted to developed economies, which are already overheated and where more investment results in inflationary pressures.

The Horowitz Proposal aims to extend to the developing nations the facility of absorbing a modest share of this capital, by building a bridge of security and interest between their needs and



the supply of capital. It is concerned not only with cheapening and improving the terms of lending, although this in itself is an important objective, but also and in the first place with enlarging the scope of the flow of capital.

The establishment of the World Bank and of the International Monetary Fund at Bretton Woods was a revolutionary departure. It initiated measures for the access of developing nations to capital markets. What is needed is a new departure, one step further on the way to transfer of resources from the developed and industrialized world to the developing nations.

Bolder plans that this have materialized, and the question why aid and the flow of capital are stagnating finds its answer in the realm of the spirit and not of material limitations.

#### Development Financing and New Liquidity

It is maintained that there should be no connection between the creation of reserves and the provision of capital for the developing nations. This is becoming one more shibboleth based on rigid prejudice, with little justification in the realities of the situation. It is possible, though not without difficulty, to insist that no special

reserves should be created deliberately for the purpose of development, albeit even this is a doubtful proposition. But it is less easy to understand why, if reserves are created by a consensus that there is need for more international liquidity, some modest part of these reserves could not be used for the Interest Equalization Fund. Is it the fear of world inflation by allocation of a few hundreds of million dollars a year, in a world in which the global GNP exceeds \$1650 billion and the anticipated 3 per cent growth rate in reserves, due to special drawing rights, should aggregate about \$2 billion of new reserves a year? That would be a thesis hard to uphold. Is it because the new liquidity has to be added to where there are already big reserves, to supplement them? The dogma of complete separation of development from the creation of new liquidity cannot be rationally explained.

A group of experts on the highest possible level, appointed by UNCTAD in 1965, rejected the thesis and strongly recommended allocation of a part of the liquidity for development, with a view to augmenting the flow of development finance to developing nations.

Instead of a separation of liquidity creation from development, there should be a clear nexus between them. There is no rational or reasonable argument, but only prejudice, against the use of newly created liquidity reserves partly in this way.



There is also a possibility of linking the creation of new liquidity with the Horowitz Proposal either through purchase of a share of IBRD bonds, to be relent to IDA, or by support of the Interest Equalization Fund. Such measures would greatly facilitate the implementation of the Horowitz Proposal.

#### The Challenge

A combination of the Horowitz Proposal with use of new liquidity reserves for development, for access by developing nations to the capital markets and, on top of that, at least a maintenance of the present grants-in-aid, could change the present situation radically. There would follow a forward stride of unprecedented dimensions by the world as a whole towards a new vision and new vistas, which might well augur the ultimate abolition of poverty in the world and present a providential alternative to the turbulence and tribulation which - in the last resort - might end in nuclear annihilation.

The wealth of nations cannot be expanded spectacularly and swiftly in the highly-developed nations, where full employment is already maintained and further increment of the GNP is predicated

on technological development. But, in the developing nations, there is a colossal reserve of unemployed and underemployed manpower, with low productivity and an excessive proportion of agricultural labour yielding a relatively low output. Added capacity there, through adequate import of capital, would make available new forces constituting an economic revolution, with the ensuing wealth seeping through every part of the world's population and markedly enriching even further the highly-developed nations besides.

Such a vision requires a statesmanlike approach, not confined to the narrow horizons of a bookkeeper. It could be economically sound. The choices are unmistakable: on the one hand, famine, political instability, and perhaps war; on the other, eradication of poverty and unparalleled affluence and prosperity for humanity as a whole.

What is needed is imagination and a political will to respond to the challenge. What is needed is the spirit which fired the world after the Second World War, when the Bretton Woods Conference took place, a spirit which the affluent society has dulled.

Such a bloodless economic revolution must be introduced by a new approach and understanding. A new approach - to exorcise the doubt:



"Am I my brother's keeper?"; and new understanding, namely, that mental processes precede material changes. The Keynesian revolution did more to change the economic conditions of the developed world than any sanguinary clashes and distressful conflicts. The integration between the developed and developing world is a pioneering task and calls for a sense of history safely to cross the perilous abyss between promise and performance.

Man is transplanting hearts and reaching for the stars. He should also be able to cast off his own intellectual and mental shackles.

Let me end as I began. What is at stake is the peace of the world. War is a child of despair and dejection. The only true foundation of lasting peace is assurance of higher living and educational standards for all mankind.

UNCTAD II July

## OFFICE MEMORANDUM

TO: Mr. Harold N. Graves

DATE: January 11, 1968

FROM: Irving S. Friedman

SUBJECT: Mr. Woods' UNCTAD Speech

The attached is for possible inclusion in Mr. Woods' speech at UNCTAD, New Delhi. I would be happy if you would indicate that the paragraph in question was drafted by myself.

If you would rather not handle it this way, I would take it up directly with Mr. Woods, although I do think it better that it be sent in the context of the speech itself.



I note that Supplementary Financial Measures is a separate item on the agenda of this Conference. You will recall that the Bank Staff had prepared a Study on the subject and made certain proposals in response to a request from the First Conference. These proposals have been considered carefully by a group of governmental experts, and members of our staff have participated in these deliberations as advisers. With respect to the financial implications of any scheme we, in the Bank, have always taken the view that the replenishment of IDA, now being considered, has the most urgent priority and needs to be accomplished long before any Supplementary Finance Scheme could come into effect. We have also taken the view that the question of what international agency should administer any such scheme was to be decided by the countries concerned; and we have made no recommendation on this. Then there is the problem of commodity stabilization. The Board of Governors of the Bank and of the Fund adopted a resolution on this at their Annual Meetings in Rio de Janeiro. Accordingly, studies have been taken in hand in the Bank and in the Fund. It is not yet possible to see what the final conclusions of these studies would be. We are considering whether IDA resources might be used for such purpose. If the answer is positive and our members wish us to pursue such policies, then, of course, additional resources will have to be provided for the purpose. In any case, it is clear that Supplementary Financial Measures and efforts towards Commodity Stabilization, if formulated and implemented carefully, will each have their distinct and complementary roles in dealing with the export problems of developing countries, and thus facilitating their economic development on a surer basis.

## OFFICE MEMORANDUM

TO: Mr. Harold N. Graves

DATE: January 11, 1968

FROM: Irving S. Friedman

SUBJECT: Mr. Woods' UNCTAD Speech

The attached is for possible inclusion in Mr. Woods' speech at UNCTAD, New Delhi. I would be happy if you would indicate that the paragraph in question was drafted by myself.

If you would rather not handle it this way, I would take it up directly with Mr. Woods, although I do think it better that it be sent in the context of the speech itself.



I note that Supplementary Financial Measures is a separate item on the agenda of this Conference. You will recall that the Bank Staff had prepared a Study on the subject and made certain proposals in response to a request from the First Conference. These proposals have been considered carefully by a group of governmental experts, and members of our staff have participated in these deliberations as advisers. With respect to the financial implications of any scheme we, in the Bank, have always taken the view that the replenishment of IDA, now being considered, has the most urgent priority and needs to be accomplished long before any Supplementary Finance Scheme could come into effect. We have also taken the view that the question of what international agency should administer any such scheme was to be decided by the countries concerned; and we have made no recommendation on this. Then there is the problem of commodity stabilization. The Board of Governors of the Bank and of the Fund adopted a resolution on this at their Annual Meetings in Rio de Janeiro. Accordingly, studies have been taken in hand in the Bank and in the Fund. It is not yet possible to see what the final conclusions of these studies would be. We are considering whether IDA resources might be used for such purpose. If the answer is positive and our members wish us to pursue such policies, then, of course, additional resources will have to be provided for the purpose. In any case, it is clear that Supplementary Financial Measures and efforts towards Commodity Stabilization, if formulated and implemented carefully, will each have their distinct and complementary roles in dealing with the export problems of developing countries, and thus facilitating their economic development on a surer basis.

I note that Supplementary Financial Measures is a separate item on the agenda of this Conference. You will recall that the Bank Staff had prepared a Study on the subject and made certain proposals in response to a request from the First Conference. These proposals have been considered carefully by a group of governmental experts, and members of our staff have participated in these deliberations as advisers. With respect to the financial implications of any scheme we, in the Bank, have always taken the view that the replenishment of IDA, now being considered, has the most urgent priority and needs to be accomplished long before any Supplementary Finance Scheme could come into effect. We have also taken the view that the question of what international agency should administer any such scheme was to be decided by the countries concerned; and we have made no recommendation on this. Then there is the problem of commodity stabilization. The Board of Governors of the Bank and of the Fund adopted a resolution on this at their Annual Meetings in Rio de Janeiro. Accordingly, studies have been taken in hand in the Bank and in the Fund. It is not yet possible to see what the final conclusions of these studies would be. We are considering whether IDA resources might be used for such purpose. If the answer is positive and our members wish us to pursue such policies, then, of course, additional resources will have to be provided for the purpose. In any case, it is clear that Supplementary Financial Measures and efforts towards Commodity Stabilization, if formulated and implemented carefully, will each have their distinct and complementary roles in dealing with the export problems of developing countries, and thus facilitating their economic development on a surer basis.



ROUTING SLIP

Date 2/20

OFFICE OF THE PRESIDENT

Name

Room No.

Mr. Friedman

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

Remarks

Mr. Woods would be grateful if you could answer his query on p. 24, last three paragraphs. Thank you very much.

From

AB Steinhilber

RBS  
2/20

p4 type A marked  
5 I'd like to see this list  
241 a copy of this document by  
ask ISF about second point

FROM AID TO COOPERATION  
DEVELOPMENT STRATEGY FOR THE NEXT DECADE

Statement by the Honorable Eugene V. Rostow  
Under Secretary of State for Political Affairs, and  
Chairman of the United States Delegation  
to the

Second United Nations Conference on Trade and Development  
New Delhi, India February 5, 1968

Mr. President, I should like, if I may, to add my congratulations to the tributes of our colleagues who have already spoken. It is singularly appropriate that this second session of UNCTAD is meeting in New Delhi, and that you have been elected as our President to succeed the distinguished and effective representative of the United Arab Republic, His Excellency Dr. Kaissouni.

Mr. President, your enlightened country, and your proud and cultured people face an economic challenge which recapitulates the difficulties and the promise of the development process. It is a hopeful augury that we meet at a time when India's economic programs have accomplished an historic breakthrough in agricultural production. That achievement rests above all on the plans and efforts of the Indian Government and the Indian people. In preparing and revising its economic plans, the Government of India has had the courage to learn from experience, through procedures of study and public discussion which are a tribute to the strength of Indian democracy.

The programs.....



The programs of the Indian Government have been supported by a far reaching process of international co-operation. India has intelligently used the resources of world science, and those of governments, private business and private foundations representing every branch of the human family.

To us, this pattern -- this vision -- of human solidarity in overcoming the curse of poverty and ignorance is the right framework for dealing with the problem we now call economic development. In our view, all governments, and all peoples, whatever their social systems, should work together in accordance with the principles of the United Nations Charter to end the specter of poverty which haunts the world. This principle is the basis of American policy, and I can assure you that it will remain the source of our policy.

The moral climate of the world has changed since President Roosevelt issued his famous call for Freedom from Want, and President Truman announced his Point Four Program. Through one of the mysterious leaps of the human spirit, mankind in our generation has resolved to abolish conditions of poverty and ignorance which have been accepted for millennia as the order of nature. New and persistent hopes have seized the mind of man. Those hopes have become aspirations, and then programs.

The theory of economic growth is as old as economic history. What is new, as our Secretary-General remarked in his opening statement on Friday, is man's determination to accelerate the pace of economic progress in the developing world. We have determined to make long-run economic growth a task for the short-run.

Governments.....

Governments and private groups have sought to find means to reach this goal. Some of these means have failed, as we all know. Others have shown promise. A few have succeeded.

Scholars, bureaucrats, and politicians have all made a contribution to this search for effective ways to accelerate the process of development and to have it include all of mankind.

Many reasons have been advanced to explain our pre-occupation with this task: reasons of prudence, reasons of self-interest or the quest for political influence. In the end, however, there is only one acceptable premise for our common endeavor: we must act, and act together, simply because we have come finally to believe that poverty is wrong, and that for the first time in human history science makes it possible to right this wrong. The poor, we are convinced, need not always be with us.

The United States is proud to have been a leader in the laborious development efforts of the last twenty years. Our policy rests on the broad principles of the United Nations Charter -- on "respect for the principle of equal rights and self-determination of peoples," and on the practice of "international cooperation in solving international problems of an economic, social, cultural or humanitarian character." We believe in a world order of diversity, in which each country is free to pursue its own concept of social progress in peace, assured of the support and cooperation of the world community to which it has a right to belong.

On Thursday we all heard the stimulating and eloquent address of the Prime Minister of India. The United States agrees with her solemn words:

"The United.....



"The United Nations was established twenty-three years ago to keep world peace and promote human prosperity. The juxtaposition of peace and prosperity is not a contrivance for stating moral precepts. The two are indissolubly linked together. Without peace there can be no prosperity

for any people, rich or poor. And yet, there can be no peace without erasing the harshness of the growing contrast between the rich and the poor." In this spirit, President Johnson recently said: "For two decades, America has committed itself against the tyranny of want and ignorance in the world that threatens the peace. We shall sustain that commitment."

In this spirit, President Johnson recently said: "For two decades, America has committed itself against the tyranny of want and ignorance in the world that threatens the peace. We shall sustain that commitment."

*and then gradually reducing it.*

*True  
True*

*arresting the growth of*

II

The main outlines of the development problem as we face it today are magisterially presented in the report of our Secretary-General, Dr. Prebisch, and were magisterially summed up in his speech on Friday. We concur in his sense of urgency; in his thesis of shared responsibility, a responsibility that is shared by the developed and the developing countries; and in his stress on the necessity for a global strategy. An adequate rhythm of growth, he points out, requires an international harmonization of economic policies, the discipline of development plans, changes in structure and attitude both in the developed and in developing countries, and access to the capital resources of the developed world for developing countries which are pursuing realistic development policies.

The panorama we face is far from satisfactory. We all know that the rate of economic progress in the developing world as a whole has been spotty, and generally too slow.

Still.....

Still, there are instances of success, and they should be carefully taken into account. The Secretary-General's Report lists 18 developing countries with compound growth rates of real product ranging from 6.1% to 10% annually during the period 1960-65.

But many more people than live in these eighteen countries live in countries which experienced growth rates between 4% and 6% during this period; and many more still live in fifteen countries with a growth rate below 4%.

This record of growth is meaningless unless it is considered in relation to the rate of growth of population. Per capita growth rates are the curves of greatest concern to us. There is no need in this room to stress the fact that policy must bear equally on both sides of the development equation -- on economic growth and on family planning -- if success in the development process is to become a reality. In per capita terms, the record is indeed somber.

The Secretariat reports per capita real product in the developing countries grew at an annual rate of 2.2% in the period 1955-60, that this annual rate fell to 2% in the next five years and was still at that low level in 1966. These depressing aggregates, moreover, mask even grimmer statistics for certain areas of the developing world.

These bleak figures define the problem before us. It is a challenge to the energy and intelligence of man: a challenge we can and must accept as a duty whose claim upon us is the inescapable predicate of our obligation to preserve the peace. We cannot conceive of a stable and peaceful world order without progress, any more than we can expect progress without peace.

As we.....



As we see it, this session of UNCTAD can and must give a fresh impulse to the process of development. That impulse should flow naturally from the agreement of our governments to harmonize their policies in a number of areas which experience and analysis have identified as critical. The United States believes that agreement among us on these critical issues is not only possible, but indispensable. We pledge our most earnest efforts, and our full support, to that constructive end.

The work of this conference has been unusually well prepared. We have the advantage of the Secretary-General's useful report, the documents prepared by the Secretariat, and the studies made by the OECD and the countries which met together to draft the Algiers Charter.

We were encouraged and impressed by the message we received from the Goodwill Mission which came to the United States to present and discuss the Algiers Charter. We welcome, and we reciprocate, the spirit of reality and cooperation which dominated their statement. The developing nations which met in Algiers, we were told, wish this conference to avoid polemics, and to concentrate on economic issues. They recognize the primary responsibility of the developing nations for their own development plans, and for the disciplined efforts in many realms required to make those plans effective. They wish to move away from the concept of aid, and to substitute for it that of cooperation. They fully recognize the contribution which private investment and private entrepreneurship can and should make to the next stage of the development process.

Our own.....

Our own preparations for this conference, and those of the OECD countries, have been carried out in the same spirit. We know that our agenda contains many items on which positions are now far apart. They raise policy problems of inherent difficulty. But the spirit of realism, and the desire for constructive cooperation, should find ways to reconcile most of these difficulties. I am confident that in an atmosphere of goodwill, and with a willingness on all sides to examine reasonable compromises, we should be able to reach agreement on a number of positive and constructive programs of action.

We have no illusions that the task will be easy. We shall be dealing here with a series of problems of trade and investment in the developing world. These problems cannot be examined in isolation. The main lesson of success in the development process is that progress comes most rapidly in those countries whose development plans aim at the integration of their economies into the world economy as a whole. That is the key to the fundamental problem which Dr. Prebisch so felicitously identifies as "dynamic insufficiency." The dynamic pressure of world economic forces should help guide the transformation of attitudes and structures within the developing countries, a process of change which Dr. Prebisch rightly characterized as the fundamental condition for rapid progress in development. The same forces are transforming structures and attitudes in the developed countries.

We should define our goal, therefore, as the acceleration of development within the framework of a growing and progressive world economy, governed by the principles of the international division of labor. We  
should.....



should avoid solutions which would isolate the developing countries from the world economy.

As we all know, the world economy is not perfect, and its basic machinery needs further reform.

Balance of payments difficulties, and a growing shortage of reserves, have created temporary problems for the world monetary system which for the moment limit the availability of investment funds, and require care in the provision of aid. In this realm, cooperation is being organized in managing the balance of payments adjustment process, in accordance with the recent resolution of the OECD. This step, and the prospective implementation of the agreement reached at the Rio meeting of the International Monetary Fund, should strengthen the world monetary system, the essential foundation of an open and growing world economy of equal benefit to developed and developing nations alike.

In the field of trade, too, the horizon is hardly without clouds. The successful completion of the Kennedy Round negotiations was a remarkable achievement of economic cooperation, and it has created many opportunities for growth in every economy of the world.

At this conference, we shall be considering proposals for a new system of generalized tariff preferences for the developing countries in the markets of the more industrialized parts of the world. This, in our view, should be a major advance, promising a contribution to the economic welfare of the developing countries going beyond the Kennedy Round. If we can agree on the essential bases through which this idea can become a policy, we shall have opened important new opportunities for investment and expansion in the economies of the developing nations.

At the.....

At the same time, however, we should not lose sight of the hazards in the field of trade policy, hazards old and new. The protectionist impulse is always strong, and is supported always by plausible arguments. We should examine the problems before us with care, in order to avoid trade policies which depart from the principle of comparative advantage, as we open up vast markets to competitive opportunities.

### III

With these general principles in mind, let me turn to some of the more particular items on our agenda.

I propose to begin with the problem of food supply, a basic task of the world economy, and of each national economy.

A recent Report on The World Food Problem of President Johnson's Science Advisory Committee concludes that "total food consumption in the developing countries must approximately double during the period between 1965 and 1985 if the critical physiological needs of rapidly expanding populations are to be met." But, the Report points out, "increases in food production and consumption are not stimulated by physiological need alone. They are determined by economic forces as well. The rate of production of food is governed by demand, which in turn is governed by the development of the economy as a whole." "There is a strong interdependence," the Report points out, "between agricultural output and the total output (GNP) of a national economy."

The food problem, fundamental as it is, cannot be considered except as part of the problem of development in its totality. Only a growing and productive economy can produce or purchase the food it needs for its people.

And only.....



And only a people adequately fed will have the vitality to engage in the hard and demanding work of economic progress.

These same themes dominate the Secretary-General's Report on "Developing Countries and the Food Problem."

Food is not a problem apart, but an aspect of the task of most effectively improving the use of available resources. The urgency of the food problem does not imply that every country must seek to become self-sufficient in food. We are not here to repeal the principles of rationality in economics. Unless rapid progress is made in family planning -- progress at a higher rate than we can now observe -- a large share of the gains of economic development, however rapid, will be absorbed in a Malthusian race.

The problem of food sufficiency cuts across many areas of concern to UNCTAD. It is necessarily a first item of realistic development programs. In the developing nations, every government must decide how much food to grow, and how much to buy. It must make these decisions in terms of its best estimates of future trends.

It is natural that my Government has a strong interest in problems of food and agricultural development. For some years concessional shipments of American food surpluses have tended to obscure the significance of lagging per capita food output as a major problem in many developing countries. We have been among the first to recognize the need for an urgent, concerted effort to modernize and accelerate agricultural development in developing regions.

I am sure.....

I am sure we are all agreed that food aid, however essential, cannot be regarded as anything but an interim solution. For one thing, the vacuum filled by food aid results from a lag in the development of the agricultural sector in many countries, which pulls down rates of overall growth. It has sometimes had a negative effect on food production in the recipient country. Increased per capita output of food is essential, at least in those regions where it is economically rational to allocate increased resources to agriculture.

We are now in a period when food aid shipments will depend in large part on production programmed for this purpose. The era of vast food surpluses is over. It is no one's interest that this anomalous situation in world production and trade in food be perpetuated any longer than necessary.

The point is often made that the food problem is not a general one, but one affecting only a few countries. This may be true today, but the problem could easily become more widespread and serious, if appropriate steps are not taken promptly. Many countries which used to be food exporters now import food. And others are near that margin. What we need is a well-thought-out, comprehensive program of preventive medicine. Our purpose should be to invalidate today's projections of sharply rising food deficits by altering present trends in food production and population.

We feel that this Conference can make its own contribution to the solution of the world's food problem. UNCTAD's special concern, and special expertness, is the problem of trade and development seen as a whole. I hope we shall endorse, as policy objectives of high priority,

the modernization.....



the modernization of the agricultural sector of those developing countries where agricultural expansion makes economic sense; the associated build-up of industries allied to agriculture; the application of improved technology; effective public and private assistance to further these aims; and appropriate domestic policies to create the necessary infrastructure and provide the necessary incentives for agriculture.

It will be important to have UNCTAD study the positive opportunities associated with an all-out attack on the agricultural development problem -- the opportunities for diversification, for expanding export availabilities, for new industries and for new initiatives in trade and economic cooperation. The excellent documentation which has been provided for this item of our agenda sets the stage for what can, we feel, be a constructive discussion, resulting in the articulation of constructive initiatives.

I mention these prospects only to illustrate the scope of the problem. It would be fatuous to suggest that because new techniques are available, they will automatically be put to effective use in solving the world's food problem. Much more is needed. Along with improvements in technology, there must be corresponding innovations in education, in economic organization, in management, and in the application of research. The principal lesson to be learned from successful agricultural programs in the developing world is the importance of economic incentives in inducing the use of fertilizers, pesticides, and better methods of water control. I hope this session of UNCTAD will draw out, express and focus the political will that is needed to push these programs to that level among the competing priorities which, in our view, they deserve to have.



## IV

Next, I should like to comment on certain issues of trade policy, and particularly on trade in manufactured and semi-manufactured goods, the growing edge of many developing economies, and one of crucial importance to their evolution as diversified and resourceful economic systems, capable of adaptation to the changing tides of world trade.

We are pleased that the Secretariat singled out the record of the United States in this respect as "one of the most striking features of the trend during the period 1961-65." Today the United States purchases 35% of all the exports of manufactured and semi-manufactured goods from the developing countries. Our imports of these goods grew at the annual rate of 19% in the 1961-65 period, and increased to more than \$2 billion in 1966 -- a 35% increase over the 1965 level.

We take satisfaction in these developments, which have not taken place without strain as our markets become adjusted to new sources of supply. The import needs of developing countries are increasing rapidly, and the long-term market outlook is not good for a number of primary commodities which are important to the developing nations. We know, therefore, that there must be no faltering of export growth in the field of manufactured and semi-manufactured goods from the developing countries. Some recent steps give grounds for cautious optimism. Perhaps this Conference can lead to others. Certainly there are export possibilities which have not received the attention they deserve.

I mentioned the Kennedy Round in another connection a few moments ago. As a result of these unprecedented negotiations, the average tariff level in the industrialized countries will drop by 37%, to a level of

less than....



less than 9%. These cuts will open new trade opportunities in all the industrialized countries. Tariff cuts do not, of course, in themselves lead to increased trade. But they do create opportunities that can be realized through improved marketing and cost consciousness. Developing countries with a good industrial base already are in a better position than the majority of developing countries to take advantage of these possibilities. But no country should neglect the opportunities the Kennedy Round has created for improved access to world markets. Certainly, none need be discouraged. In this regard, it is instructive to study the extraordinary export progress of Mexico, Korea and the Republic of China, which made extraordinary advances even at pre-Kennedy Round tariff levels.

The decision to establish a joint GATT-UNCTAD Trade Center is another promising recent development. One of its major functions will be to help developing countries exploit the trade opportunities of the Kennedy Round. The techniques of export promotion must be better understood and applied if lower trade barriers are to have their intended effect. This kind of practical cooperation between the GATT and UNCTAD augurs well for the future.

Turning to the immediate business of this Conference, I should like to comment on the important issues of tariff preferences. We have before us the OECD paper, the Charter of Algiers, and several UNCTAD Secretariat documents which help define the issues we shall have to deal with in this connection.

My government welcomes the fact that while differences of scope and of principle remain, we start our examination of this question on the

footing....

footing of broad and important agreement. There seems to be general acceptance of the concept of a generalized system of tariff preferences to be extended by all developed countries to all developing countries, a system, moreover, that does not involve the granting of reciprocal special advantages to the developed countries.

The idea of tariff preferences for the developing nations has a high potential. It involves a series of issues which will be carefully examined during this Conference. I can assure you that the United States stands ready to cooperate in the effort to resolve these problems.

We are convinced that a temporary system of generalized preferences for the developing countries should help accelerate their rate of growth. Such a system would also avoid the adverse effects of special preferential trading arrangements between certain developed and developing countries, agreements which could divide the world into trading blocs. Such a development of world trade, could, in our opinion, have unfortunate political and economic effects. This concern also underlies the call in the Charter of Algiers for a generalized system of preferences.

It may be useful to draw the attention of the conference to one issue which the United States and a number of other countries consider particularly important. This is the issue of reverse preferences -- preferences granted by particular developing countries to particular developed countries.

Such preferences often burden developing countries by increasing the costs of their imports. While we recognize that there are reasons for these preferences, reasons of history in some cases, or as compensation for aid.....



for aid programs in others, they have become an anachronism. The recipients of reverse preferences have often stated that they do not insist on these preferences, and that it is up to the developing countries themselves to decide whether they should be continued. For its part, the United States has already agreed with the one country which grants reverse preferences to us, the Republic of the Philippines, that the reverse preferences will not be extended when the present agreement expires. For us there is an element of equity in this issue: is it reasonable that the United States should give a preferred position in the American market to the products of countries which discriminate against American goods? I believe the question answers itself.

Improved market access, greater attention to export promotion, and tariff preferences will all aid the exports of developing countries. But there is need for other actions as well. We hope this Conference will wish to give a new impetus to the movement for regional integration.

Today in many areas the efficient application of modern industrial technology to production requires large industrial plants, long production runs and a high degree of specialization. In consequence, modern industries need a large market. In many developing countries, such a market does not exist. As we in the United States know from our own history, it is too much to expect that some new producers can immediately confront the world market and the competition of established producers. But if developing enterprises are exposed to more tolerable competition within regional markets, it should accelerate their ability to reach a competitive position in wider international markets.

There are.....

There are lessons for the developing world in the outstanding achievements of the European Economic Community. Regional economic cooperation has also made commendable progress in Central America, and in other developing areas.

But the regional movement faces stubborn economic, political and psychological barriers. The autarchic policies of many governments have strong roots in the fears of businessmen and government leaders -- fears of change and of the unknown.

For our part, we are prepared, now as in the past, to assist meaningful progress in the direction of regional economic cooperation. Our support of such movements in the past has not been limited to verbal endorsements, nor will it be in the future. For a number of years, we have given economic and technical aid to the Central American Common Market. We have undertaken to contribute towards easing the transitional difficulties in forming the Latin American Common Market. We are also prepared to support multinational projects for building infra-structure through the Inter-American Development Bank. We have contributed \$200 million to the Asian Development Bank, and asked the Congress to authorize an additional \$200 million for the Bank's special funds. We are also prepared to give assistance to regional economic cooperation in Africa, and in the Middle East.

We believe that regional cooperation has much to contribute in the years ahead to the progress and stability of many parts of the developing world.

We are.....



We are, therefore, favorably disposed toward the interesting proposal on our agenda from the UNCTAD Secretariat suggesting that specific regional undertakings by the developing countries be matched by a declaration of support by the industrialized countries. We look forward during the coming weeks to exploring the content of such a common effort.

## V

Now I should like to say a few words on the much mooted subject of commodity problems. It is natural that the state of the basic commodity markets should loom large on our agenda.

Commodity production is after all the foundation of the economics of many developing countries and their major source of export earnings.

Commodity trade is plagued by a variety of problems: by persistent overproduction in some key products; by wide and destabilizing price swings in other key products; by severe competition from both natural and synthetic products; and by import restrictions and preferential arrangements.

We meet at a time of difficulty in the markets for several raw materials and other primary products. In some cases, these difficulties reflect cyclical conditions, and should be relieved by higher growth rates in the industrialized world. In others, supply has proved unresponsive, for a variety of reasons, to market signals. In certain cases, there are structural problems which have been the object of concerted international effort.

There is....

There is no one solution for this range of problems. Policy must be tailored to the problems of specific commodity markets. There is no alternative to the process of getting at the facts and then developing and evaluating possible courses of action which might be usefully taken to meet individual commodity problems. The special contribution which UNCTAD can make is in helping governments to understand the possibilities and limitations of particular types of action as applied to particular types of products.

We know that in certain cases, such as those of some tropical products, commodity agreements may be practicable and helpful. In the case of coffee the Agreement is playing an increasingly constructive role in stabilizing prices and promoting an attack on the problem of oversupply.

On the other hand, for temperate products and commodities subject to replacement by synthetics, commodities which provide a substantial percentage of the export earnings of developing countries, it is generally accepted that other approaches should be emphasized. Diversification, more efficient production, improved market access, development of new markets, careful domestic management in the developed countries so as to avoid excessive production and allow developing countries a share of market growth, are some of the general lines being advanced for consideration. We are weighing and testing policy approaches to these problems. We believe the Conference should give desirable impetus to the consideration of these alternative approaches.

In this connection one particularly promising avenue the Conference will be specifically exploring is the role of diversification in commodity policy. For a number of commodities, diversification, it seems to us, offers the best hope for a long-term improvement of market conditions.

We all .....



We all know that when a country has substantial resources invested in producing commodities in structural surplus there is a double cost: the surplus depresses prices; the resources used to produce them would normally bring higher returns if they were invested in manufacturing, in commodity exports with better growth potential, or in foodstuffs for rising local needs.

To agree in principle on the need for diversification in certain commodities is relatively easy. To translate this agreement into specific courses of action is much harder, and often requires investment. A promising start was recently made in coffee. Producing countries have agreed in principle to use some of the extra resources made available by the Coffee Agreement to finance practical projects for shifting resources out of coffee. We have offered to participate actively in this new venture, and to contribute resources to its success. We hope other countries will join us.

Before leaving this subject, let me also say a few words on some commodity matters we are all keenly aware of, the current state of negotiations for a cocoa agreement and renewal of the international coffee agreement. The United States, for its part, is convinced that real progress has been made and that we can confidently look forward to success in both instances in the near future. We note that a conference to negotiate a new sugar agreement is also being planned. The United States will cooperate in such a conference.

VI.....

## VI

Preferences, regional cooperation, and commodity problems, are three of UNCTAD's main concerns. Financial assistance to developing countries is a fourth.

The growing sense of interdependence among the nations of the world is one of the most promising international developments since 1945. One manifestation of this idea has been the flow of aid from developed to developing countries. The acceptance of this responsibility, for all its complexities, is a bright page of modern history.

The most important recent development in this field is the international coordination of many programs of economic assistance. The World Bank has taken the lead in organizing and staffing several successful international groups which have devoted themselves to the economic development problems of particular developing countries. And both the Bank and the International Monetary Fund have assisted in the negotiation of agreements for rescheduling the debts of certain developing countries. By the middle fifties the International Finance Corporation had been added to the World Bank family, and shortly afterwards the International Development Association. In the years since, a major institution for financing development has been established in each continent of the developing world. Gradually substantial additional resources have been made available to developing countries by enlarging quotas in the Fund and, following a Recommendation of the First Conference, by expanding the Fund's compensatory facility.

In this connection, the replenishment of the funds of the International Development Association is one of the most important issues now before the world community. The United States, as you know, proposed a plan

last March.....



last March for reaching the target of \$1 billion a year in IDA funds within three years. Negotiations for the replenishment of IDA are well advanced, and we are hopeful that final agreement on the program will be reached soon. We shall, of course, do our share in whatever program commands general support.

In addition, other parts of the UN system are engaged in helping and developing nations to progress economically and socially. Close to 80% of the total resources of these agencies is being devoted to economic and social programs. There has been a striking increase in these resources and in their concentration on development. During the past eight years, 1960-1967 inclusive, the UN and the Specialized Agencies, not including the World Bank complex, have spent almost \$3 billion, mainly on activities related to the development and welfare of the developing countries.

United States contributions accounted for over 40%.

Bilateral aid programs have also been enlarged during recent years.

Because of the volume of our international responsibilities, we have been unable to meet our aid targets in recent years. But the nature of our own bilateral programs is such that we have a large pipeline, large enough we hope to carry us over our present difficult years. We have, of course, a balance of payments problem which affects our aid program. We are doing our best to minimize the effects on developing countries of the measures we have been obliged to take in recent weeks.

## VII

It is increasingly apparent, as we study the cases of success and failure in the growth process, that private investment and private

entrepreneurship.....

entrepreneurship are factors crucial to the possibility of accelerated growth. The job of achieving rapid economic growth is too large for most governments to undertake alone. Few can afford not to make full use of this important international resource.

I should like to call attention to a paragraph relating to private investment in the Secretary-General's overall review of recent trends in trade and development, paragraph 14 of TD/5. In reviewing the flow of public and private capital during the period 1961-65, the Secretary-General observes that the more rapidly growing countries receive an average of \$2.8 per capita annually in net private long-term investment compared to an average of only 23 cents per capita flowing to low-growth developing countries -- that is, less than one-tenth of the amount received by the first group.

High rates of growth bear more than a casual relationship to high rates of net private long-term investment. We are met here in UNCTAD to promote higher rates of growth. Developing countries, quite properly, look to the United States and other industrialized countries to help this process. But most of the productive resources of the United States are in private hands, not Government hands, and the same situation prevails in most of the industrialized countries. Some experts in the field of development concentrate on the resources available to the United States and other like governments for development assistance. By doing so, they direct attention to the peak of the iceberg, not to the larger resources which support it. We should devote a considerable part of our energies here to finding practical ways to attract larger flows of private resources from the industrialized countries to the task of development.

Private.....



Private investment is also related to another item on the agenda -- technology. So far as the United States and other private enterprise economies are concerned, technology is available primarily from the private sector. Private investment brings not only technology, but the management and technical skills required to make effective use of the technology.

In TD/35 Supplement I, there are a number of useful suggestions. I trust they will receive the attention they deserve during the coming weeks. I should like to put forward an additional idea.

We believe that one of the important achievements of this Conference could be to launch an enquiry into the legal and policy framework within which private investment and private entrepreneurship are drawn into the development process. Such an effort could make these indispensable factors of growth more readily available to the developing countries. Such a study might lead to widespread agreement on a fair code defining the rights and the obligations of foreign business enterprise in the developing countries -- a balanced and agreed code, which could simplify and speed up the process of investment.

We realize that this is a vast and many-sided subject, and that some important progress in the field has been achieved in recent years. But my government believes that much remains to be done, and that the United Nations is the forum in which such an effort should be made.

We have no desire to impose our own particular economic system on others. Every country, we recognize, must evolve its own economic system, according to its own needs, its traditions and the realities that it faces. But we do believe that the time has come for a new look at the problem

as a.....

*a copy of this pls*

*what is this all about?*

*Is there a paper on it?*

*Who in US Govt is pushing this idea?*

as a whole. We believe that it should be possible through international agreement to bring about a basic improvement in the legal environment for private investment in the developing countries, which could quicken the flow of private resources into development.

We are willing to do our full part in such an effort.

#### VIII

Mr. President, our agenda deals with issues to which my government attaches great importance. We felt it necessary to indicate our basic approach to the problems of this Conference, and to comment on some of the principal issues before us.

All of us here know that the nations represented here are divided on many problems, and represent different ideologies, different educational experiences, different interests. We are united, however, in our loyalty to the Charter of the United Nations, and in our determination to assist the developing countries in their drive for more rapid economic growth. If our deliberations are guided by these two central facts, if we pursue our work in a spirit of cooperation and realism, my government believes we can make a major contribution to the welfare of the developing countries, and therefore of the world community as a whole.

To this end, Mr. President, I have the privilege of pledging the best efforts of the Government of the United States.

*Handwritten signature*



EMBARGO FEBRUARY 5TH - 10.30 a.m.

*D) RBBS  
2/20  
Have it in  
PT typed for me  
22  
24*

*2) ISF - well worth  
reading -  
tell me  
at your  
convenience  
which essential  
points you disagree  
with  
2/15*

SPEECH DELIVERED BY MR. MICHEL DEBRE  
FRENCH MINISTER FOR FINANCE AND ECONOMIC AFFAIRS  
AT THE U.N.C.T.A.D. II, ON MONDAY, FEBRUARY 5TH, 1968

It is with great pleasure that I, too, pay tribute to the leaders of our great host country - the Head of State, the Head of Government, and your many patient and courageous administrators. India, with its traditions reaching back to the dawn of civilization, is tackling the problems of the end of this century, and of centuries to come, with a remarkable and wholly admirable determination to be master of its own destiny. The community of peoples is following its endeavours with close attention and sincerely hopes that India, besides peace and freedom, will achieve success matching its aspirations.

Be so kind, Mr. President, as to accept my personal greetings and to convey my good wishes to your Government.

Everything has already been said - and doubtless will be said again - on the importance of the problem that brings us to New Delhi. At a time when science and technology are opening up amazing new perspectives, so that it now seems that human intelligence can overcome all obstacles, including

.../...



those historical evils - solitude, hunger, disease, ignorance - by which hitherto human life has been blighted, a profound gap divides the destinies of the peoples of the world.

It is true that the division between developed and developing countries is something of an oversimplification. There are important, and widening, differences, expressed in growing disparities of living standards among the developed countries. Among the undeveloped countries, the differences are no less striking. These result from deep-rooted economic, social and moral conditions, and new discrepancies will arise in the future because some countries have greater opportunities than others...

It must, however, be admitted that, four years after the Geneva Conference, the imbalance of the world economy remains unchanged : the gap between the developing and the industrialized countries persists and is tending, at times, to increase. The fluctuation in the prices of a number of important products damages the economies of many countries and hampers their development by reducing their share in world trade.

The causes for this delay are many and various. Despite the technical possibilities and many praiseworthy efforts, the developing countries have been slower than might have been hoped in adapting themselves to modern conditions. Amongst the developed countries, fluctuations in industrial conjuncture give rise to uncertainties which affect the expansion of the world economy.

Lastly, we must not forget the consequences of the political situation : the quarrels, the disputes and the huge

.../...



expenditure on armaments. In the light of all this and of the hopes raised by the first Conference, it is easy to understand the disappointment felt by developing countries and the concern of all those who, rightly, give priority to human solidarity throughout the world.

No doubt the new ideas have had an impact. Some awareness has been aroused and some progress made. But we are still a long way from the goal, and it still seems appallingly difficult, in the light of the requirements of some and the availabilities of others, to select the most appropriate and effective methods - requiring effort and discipline on both sides - the concessions and the sacrifices which are essential if any success is to be achieved.

We must, however, go forward and the Delhi Conference must lead to positive action.

## II

In a discussion of this scope, a small number of very definite principles should constantly be kept in mind.

Any serious and durable action can only be based on equality between all participants, that is to say, on respect of the personality and independence of each one.

Any serious and durable action requires that means be adapted to the very different situations of the

.../...

various developing countries ; but, at the same time, efforts must always be directed towards raising the living standards of the people concerned.

Any serious and durable action requires labour and willingness to share out of the income from labour. No progress can be achieved by the artificial creation of monetary resources.

These three principles are quite fundamental, and it is desirable to state them once again, if only in a few words.

+ +  
+

No serious and durable action is possible if accompanied by a desire to impose political dependence.

We know, of course, that there will be no peace in the world unless the peoples recognize that solidarity involves interdependence. An insistence on absolute independence, expressed in a refusal to assume any undertakings, is fatal to peace.

But there is another form of dependence : domination imposed by one State over others.

It would be fatal to the policy of assisting developing countries if it were to become an instrument for creating such dependence.

One example of the application of this principle,

.../...



with which all of us are familiar, lies in the exploitation of certain natural resources from which a number of developing countries might benefit, but from which they can only benefit in so far as developed countries are interested in developing those resources and marketing them. Those developed countries should not take advantage of the fact that they are the only available markets to impose conditions which affect, not only the economics, finance and trade of the producing countries, but also their political development.

There is a counterpart to this obligation : the policy of assisting development presupposes favourable trade conditions and these can only be ensured by the acceptance and observance of rules without which there can be neither stability of production nor confidence in economic relationships.

Respect for law is indispensable not only to peace, but also to prosperity and progress.

+ +  
+

Any serious and durable action requires, secondly, that methods should be adapted to the stage of development and to the often very special situation of each country.

It is natural that the procedures adopted should vary. How many different degrees of anxiety, how many variations in the approach to problems are to be found

.../...

between, say, the fight against hunger and the creation of a modern industry. And there are other differences : sometimes what is required is, above all, an effort of solidarity on the part of the outside world ; sometimes a country's own resources make it possible to subordinate outside assistance to an effort of internal solidarity. This particularly applies to developing countries in which there are prosperous areas and wealthy families.

Any idea of uniformity must therefore be illusory. Nor must we forget those profound differences which religion, tradition, customs and modes of life have grafted on to the unity of the human personality.

But cutting across all the necessary variations of approach, one objective must have priority : to raise the living standard of the masses of the people, starting with the poorest, the humblest and the least privileged.

+ +  
+

Lastly, aid to the developing countries cannot be undertaken by artificial monetary inflation. During the past half-century we have improved - and may improve still further - the forms under which credit is provided and we have made available additional financial resources by means of more efficient machinery and increased activity by sound financial institutions. This improvement in the forms of credit - and

.../...



particularly of international credit - constitutes a very remarkable advance. By providing, in a healthy political atmosphere, industrialization and international trade with new opportunities of growth, the quantitative and qualitative expansion of international credit is an invaluable tool for assisting developing countries.

But there is no magic medicine which eliminates the need for work and productive effort. We must therefore be on our guard against certain formulae which encourage the belief that all countries can benefit, systematically and uninterruptedly, from the artificial creation of monetary liquidity. Aid to the developing countries must be subtracted from the income of the developed countries : it means, that is to say, a transfer of wealth, rendered possible by their steady growth. Both sides should face what this implies : in the developed countries, public opinion must recognize that this is a sacrifice which must be made in the name of international solidarity ; and the developing countries must understand that the transfer they are asking for can only be made at the expense of slowing down the rate of social advance in the countries which are prepared to accept the sacrifice. These are the facts of the matter ; these are the demands of solidarity.

III

The Chairmanship of the Council of the European Economic Community is at present occupied by France. I therefore have the honour of speaking on behalf of the Community in which six nations are constantly striving towards closer economic association and, indeed, integration. Our Community has unceasingly declared that its objectives were both to improve the standard of living of its members and to co-operate actively with the world community to the same end. It is therefore only natural that a declaration on behalf of our Community should be made here.

I shall now proceed to make that declaration.

The statistics for the period 1958-1966 show a steady and increasing expansion in the trade of the European Community with other countries. Total exports increased from \$ 15,911 million in 1958 to \$ 29,412 million in 1966, or an increase of 84.8 %, and total imports increased from \$ 16,156 million in 1958 to \$ 30,735 million in 1966, or an increase of 90.2 %.

This expansion reflects the high growth rate which has characterized the States members of the Community during the last ten years. This growth rate has had a stimulating effect on the world economy as a whole. It is not surprising, therefore, that it should have had repercussions in all countries, and particularly in the developing countries. In this connexion, four significant facts may be noted :



First, trade between the E.E.C. and the developing countries has left the latter with a growing favourable balance. Imports into the Community from the developing countries, which amounted to \$ 6,824 million in 1958 rose to \$ 11,312 million in 1966, representing an increase of 65.8 %. During the same period, the Community's exports to the developing countries rose from \$ 6,125 million to about \$ 8,000 million. In other words, the constant deficit shown by the Community in its trade with developing countries provides the latter with substantial resources for financing their imports from other trading areas and for financing their development.

Secondly, the E.E.C. market now represents 24.5 % of the total export market of the developing countries and provides, in fact, the major outlet for the exports of those countries.

Thirdly, while imports from the developing countries continue to consist largely of primary products, imports of manufactures have developed favourably : they were nearly trebled between 1958 and 1966.

Lastly, imports into the Common Market have been evenly distributed amongst the various developing countries. The apprehensions and the criticism to which the system of Association between European States and certain African and Malagasy States has given rise are not confirmed by the facts. It is true that the African and Malagasy States have sold more to the Common Market, but this improvement has not come about at the expense of other developing countries.

.../...



These few figures, which I have just quoted, indicate that the effort to combine the economies of certain European States is a positive factor for the development of all the countries of the world. We are dealing here with an unquestionable trend, which bears witness to a political will.

This political will is, moreover, manifested by the contribution of the States members of the European Community, and by the Community as a whole, to the initiatives which have been taken in recent years to expand international trade. Under the auspices of GATT, the European Community took an active part in the 1959 and 1963 multilateral tariff conferences. As a result of these negotiations - and particularly the second, known as the "Kennedy round" - the common external tariff will be reduced, on an average, by 40 to 45 % of the level established in 1958. Moreover, the multilateral negotiations have opened the way to arrangements which go beyond the field of tariffs. Here I shall mention only the two Conventions dealing respectively with wheat and food aid ; the countries of the Community played a leading part in promoting those Conventions.

Finally, the Community's political will is reflected in an unceasing search for solutions adapted to the problems of the countries concerned. You will doubtless recall the recommendations made at the first Conference by Mr. Brasseur, who was the Community's spokesman at that time. Since then, the Community has continued to play its part, taking due account of the inevitable difficulties confronting concerted action by industrialized and developing countries,

.../...



and also taking into consideration the considerable differences amongst the developing countries themselves, which - as the Algiers Conference and the Secretary-General's report have stressed - call for appropriate solutions which may be outlined as follows :

With regard to the manufactures and semi-manufactures produced by developing countries, I should like to draw attention to the position adopted in 1964 by the Community's spokesman. Emphasis was laid at that time to the favourable effects which a system of tariff preferences might have in diversifying the production and increasing the exports of the developing countries.

The Governments of the EEC countries are happy to note that a considerable number of countries have, in the meantime, come to support the idea of expanding tariff preferences, despite the difficulties of applying such a system. The delegations of EEC member States will take an active part in the Conference's discussions on that important question and will make known the results of their thinking on the subject.

With regard to the serious problems of commodities - a subject to which I shall revert on behalf of the French Government - we find that, in respect of quantity, the balance of the developing countries' exports of these products is positive : since 1958, exports to the Community have increased by 67 % for bananas, 62.7 % for cocoa, 24.5 % for tea and 46.8 % for coffee. In monetary terms, the balance is less favourable owing to the fall in prices. This brings us to the questions relating to the various forms of



international co-operation which have been or might be proposed in this connexion. This is a problem in which all the States of the Community are interested.

I wish to reiterate the importance attached by the Governments of all the EEC member States to increasing the volume of trade in all types of products between the developing countries concerned. Developments in this respect have not been entirely satisfactory ; trade amongst the developing countries has, in fact, increased more slowly than that with the industrialized countries and constitute at present only about 20 % of their total trade.

Many developing countries are planning, or have already put into operation, systems of regional integration with a view to correcting that tendency. As it has stated in the past, the Community views such efforts with sympathy when they are built on a sound economic basis ; and it is ready to assist them by making available the experience it itself has gained in this field.

The opportunities now offered by the Common Market in the field of trade promotion and the assistance which may be provided by the Community's trade promotion institutions are, and will increasingly be, of the greatest value. In the financial sphere too - which, with trade, is one of the main centres of interest at this Conference - the system of association with African and Malagasy States has enabled all the countries of the Community to gain very valuable experience. The same is true of other sectors.

.../...



All these matters will be dealt with by our experts when they come up for consideration during the course of the Conference's work. There is surely for me no need to express the keen desire of all the EEC States to achieve the maximum possible number of positive results.

#### IV

I now have the honour to speak on behalf of my own country.

France, as you all know, has placed its participation in the international effort of human solidarity in the very forefront of its foreign policy objectives. Many times, during the past ten years, General de Gaulle, the President of the Republic, has given this policy top priority. Many times, when speaking to the French people of their responsibilities, he has emphasized the obligations owed by our country - though by no means one of the richest - to the peoples of the world who have not yet benefitted, or have not sufficiently benefitted, from the economic and social progress that contemporary science and technology have rendered possible. Just over a month ago, on 1st January 1968, speaking to members of the diplomatic corps, General de Gaulle publicly stressed the importance of the Delhi conference.

France is not content merely to preach a doctrine :

.../...

it puts it into practice. If each country's effort is calculated in terms of its national income per head, France's contribution is amongst the largest ; and if one were to add together all our different ways of contributing - whether direct, or through bilateral, European or world channels - our effort would doubtless be found to be the greatest of all. Some years ago, the figure of 1 % of the national income was proposed as the amount which each country should devote to this solidarity effort. France has considerably exceeded that figure.

U On behalf of General de Gaulle and of the French Government, I solemnly declare that we are fully prepared to consider a further increase in our contribution.

But at the same time we particularly urge that certain recommendations, which we regard as essential, should be taken into consideration. Two of these recommendations deserve particular attention : the organization of commodity markets, and technical co-operation and the development of human resources.

+ +  
+

We are convinced, and we hope to convince you, that the organization of markets for primary products - that is to say, for certain raw materials and certain major agricultural products - is the ~~first~~ and from a material and a

.../...



moral standpoint the most important of all the measures which we can adopt.

This question of market organization exemplifies in the most striking way the reciprocal demands that are implicit in any sincere development assistance policy. From the one side it requires an effort ; from the other, discipline. And for both it creates a form of solidarity.

For the developed countries, it means an effort. They have to pay more for the products they need, which they can buy more cheaply so long as markets are unorganized. For the developing countries, it means accepting a discipline with respect to the quantities they produce ; otherwise, there is anarchy and disaster. This effort and this discipline give rise to a solidarity which, in addition to economic and social improvements, creates political and moral ties which are all the stronger to the extent that price stabilization - if accompanied by a proper national and international regulation of trade - should directly affect the living standards of producers and their families.

I shall not dwell on the fluctuations to which commodity prices have been subject in recent years, nor on the longer-term decline that has affected some of them, with the resulting deterioration in the terms of trade. It is obvious that this is one of the prime causes of the reduction in the developing countries' share in world trade.

Need I say that it would be inappropriate to think in terms of a single type of solution ? What we need is an agreement for each commodity, adapted to its particular



characteristics. Such agreements would aim at stabilizing prices at an equitable level.

In the case of food products, and in particular tropical products, it is desirable and possible to support prices - as many industrial countries do, by other means, for their own domestic products. With industrial raw materials, the problem is more difficult because substitution by synthetics must be taken into account. But without running counter to technical progress - which would inevitably be futile - there is nothing to prevent us searching for stabilization agreements by which, at least, uncontrolled fluctuations, such as those which have affected rubber, can be avoided.

I am well aware of the technical difficulties of such agreements. Experience has shown, however, that they can be overcome provided the political will is there.

The wheat agreement, which has been in force for nearly twenty years, has been regularly renewed by making the necessary adjustments. This agreement is primarily of concern to the developed countries ; but those countries have been able to reach an arrangement, the principles of which can be applied to other products.

A more cogent example is that of the coffee agreement under which a very large number of producing and consuming countries have accepted a common discipline. It provides producers with additional earnings amounting to several thousand million francs as compared with the previous period, without affecting consumption.

.../...

*LSF  
Tell me  
about this  
agreement  
same time  
1/15*



The cocoa agreement, in which a smaller number of countries are interested, remains in abeyance despite years of negotiation, because the political will has been lacking. I continue, however, to hope that wisdom will have the last word and that this Conference will help to bring this about.

While the question of fats and oils is particularly complex, let us display the necessary vision to ensure that a satisfactory solution is found.

It is clear therefore that this is a means by which progress can be made, if we are determined that it shall be made. There are so many products which have to be considered : rubber, oils and many more. In this connexion, I attach great importance to the resolution passed last September at the Assembly of the International Monetary Fund and the World Bank on the initiative of a number of African and Malagasy States, with which France is associated.

This resolution opens up new perspectives. Thanks to the resources available to them, the financial institutions are, in the first place, in a position to help the operational organizations solve certain problems, particularly the financing of buffer stocks. In the second place, they - and in particular the International Development Association - will be able, by means of long-term credits, to facilitate reconversion and diversification programmes, which are often the corollary of the discipline imposed on producers.

In the light of these possibilities, I think that the Conference, in the course of its work, should select a



certain number of products for which the conclusion of agreements is a matter of priority. For these products, which might be selected from those mentioned at the Algiers Conference, a time-table of negotiations should be drawn up, after the basic outlines of a solution have been explored.

Once again, the essential point is the will to achieve results.

+ +

+

The will to achieve results is also of prime importance for technical co-operation and the development of human resources.

Development, it is true, depends on material resources, but it also depends on man, that is to say, on human skills. Alongside their material progress, the developed countries have had the benefit of knowledge and education which have increased the capacities of their citizens, from the farmer to the doctor and from the unskilled worker to the engineer. But they must not monopolize this advantage. Technical co-operation and the development of human resources make it possible, in the first place, to make good this deficiency. Later, they help to remedy it by enabling young men and women from the developing countries to make up in a few years for the backlog of two or three generations.

There are a number of stages to this process. It begins by sending technicians to do jobs which the men and

.../...



women of the developing countries cannot do for themselves. Later, technicians co-operate with indigenous personnel, no longer to replace them, but to train them. The last stage of co-operation aims at training men who will in turn train their compatriots.

Such co-operation, like market organization, requires effort and discipline. And it creates a remarkable bond of solidarity.

In terms of effort, the material cost may not be heavy ; but it means that, for a certain time, the developed countries must forego the services of their technicians. It is a temporary and altruistic brain drain. At the other end, it takes discipline. Nothing can be done without adaptation, and for the young men and women of the developing countries, this adaptation may be difficult. But it is essential for the acquisition of professional skills.

The solidarity which develops out of this co-operation is extremely valuable and constitutes a factor for peace and better understanding between peoples. I can speak from experience, because the French Government decided, six years ago, that young people, after completing their studies, could replace the military service for which they were liable by technical co-operation service for the benefit of developing countries and regions. Under this scheme, thousands of young people - including some of the best we have - leave France each year for a period of 18 to 24 months. They are either assigned to particular jobs, or are responsible for training technicians or for training men who, in their turn,

will teach others, and I may say, from experience that this system is giving excellent results. In agriculture or handicrafts, primary or higher education, in the various marketing techniques the development capacity thus imparted is capable in a very short time of producing substantial material improvements, to which must be added intellectual and moral improvements with far-reaching consequences.

Need I add that this form of co-operation is not one way only ? And that is by no means the least of its advantages.

Each country possesses its particular cultural heritage, and in this respect most developing countries have nothing to envy the developed countries. At the end of their co-operation service, our young people come back to France enriched by all they have seen, heard and learned. They have a fuller insight into the extraordinary wealth of intellectual, religious and moral resources which the developing countries have to offer to their contemporaries in the developed world. Thus co-operation takes the form of an exchange - the rendering of equivalent services - which gives this aspect of the development assistance policy its, in our eyes, fundamental moral value.

+ +  
+

If I come only now to the questions of tariff preferences and of financial assistance, this in no way implies

.../...



any intention to minimize their importance. Nothing can be achieved without financial aid or tariff preferences. But in the French Government's view, an increase in financial aid and an expansion of tariff preferences are only valuable in so far as they are incorporated in an overall programme in which the two major items are market organization and technical co-operation.

The developing countries must modernize their agriculture and industrialize. This policy is both necessary and difficult. Prudence and perseverance are equally essential. The first objective is to meet the needs of the home market - that is to say that, as between neighbouring countries, some specialization is required, particularly in the case of industry, to avoid the heavy losses which would result from excessive and irreducible costs. But it is to be feared that the increased liberalization of world trade may, apart from some rare exceptions, be only of limited value to the nascent industries of the new countries. This state of things has led to the proposal that these industries should be granted preferences. I have already said on behalf of the European Community, and I repeat in the name of France, how greatly we are encouraged by the acceptance of this principle of preferences, which the EEC countries, and France in particular, were amongst the first to advocate.

We shall take part in the discussions on this subject in a constructive and pragmatic spirit, with the aim of finding effective solutions, taking account of the realities of competition and the actual needs of the developing countries.



At the same time, and in the same spirit, we understand that the question of existing preferences should also be considered without dogmatism or prejudice. The advantages enjoyed by the countries which benefit from them and their right to preserve whatever ties they see fit with the countries with which they are associated cannot be called into question. Such a wise and pragmatic attitude is justified by both reason and experience.

With regard to financial assistance, we cannot shut our eyes to the fact that it is unsatisfactory. Indeed, it will always be unsatisfactory because needs are greater than capacities. But it is essential to aim at steady growth if the newborn aspirations of all the continents are, even partially, to be satisfied.

During the last few years, France has sought greater geographical diversity and greater flexibility of methods. And, as from this year, our contribution to the funds of the International Development Association will increase by some 60 %.

We readily agree that the indebtedness of some of the developing countries imposes too heavy a burden on them. The rise in interest rates throughout the world does not make a solution any easier. But France is willing, as in the past, to make a common study of the problems involved, and to do its best to find a solution, having regard, of course, to the special position of each of the countries which finds itself in difficulties.

But the desired increase of the various assistance

.../...

ABS



efforts can only be achieved by joint action. Fairness, public opinion and the conditions of international competition require that the burden should be equally shared, and this of course should be done by levelling up, not levelling down. The target of 1 % of the national income which we proposed and adopted at the first Conference should remain the first stage in a process which will doubtless have to be carried further, but which, for the present, must be taken as the most urgent immediate objective. We can only hope that all countries will take energetic steps to achieve this target during the next few years.

V

Now that I have reached the end of my disquisition, the question that comes to my mind is that which we are all asking ourselves : what will come out of this Conference ?

Of course the world press will be able to concoct some admirable summaries of our speeches and of the numerous reports that will be discussed and whose wise or skilfully worded conclusions will be approved ; it will be able to praise the nobility of our sentiments and the earnestness of our intentions.

But what will be the outcome ?

Development strategy is global. The Secretary-  
General of the Conference has used this expression a number

.../...

of times, and it is correct. But, like every global strategy, it is composed of different elements.

There is the effort to be made by each developing country to maintain political, economic, social, and also demographic, equilibrium - a many-sided task requiring perseverance and the support of public opinion, i.e., of the masses.

There is the effort to be made by each developed country - an effort not only of material, but also of moral, solidarity. Sometimes one speaks of a "debt", and sometimes one speaks of a "duty". "Duty" is the better word ; with its ethical overtones it is more easily understood by the people who must sustain the effort.

There is the world situation, political and economic - since the two go together - armed conflict, economic competition, monetary quarrels, opposing ideologies...

At the time when our Conference meets, he would be a bold man who believes that all these elements, which are essential for a global strategy, are favourable.

For they are not, and let us have the courage to admit it. But it is precisely when difficulties are most acute that the means must be found to cope with them.

For what we are worth, it is by our actions that we shall be judged. The thoughts that we utter and the decisions we adopt must be backed by both wisdom and will : Wisdom to avoid setting impossible targets ; will to attain the possible targets we have set.



So far as France is concerned, I can pledge in advance that the French delegation will work for a constructive meeting. We believe in our proposals and are ready to take our part in all **that** ensues :

- in negotiations for the organization of various markets ;
- in the expansion, sector by sector, of technical co-operation ;
- in the judicious application of regional preferences, on the one hand, and worldwide preferences, on the other,
- and in appropriate financial aid machinery efficiently planned for useful and productive schemes.

Each one of us, of course, has interests to protect, and we are bound to protect them.

But each of us also knows that, at the beginning of any great enterprise, it is the moral approach which must prevail. And this moral approach must be based on an ideal, which can be no other than that of human freedom, religious tolerance and social brotherhood which, despite trials and misfortunes, should characterize a century of progress.

It is our hope that the Delhi Conference, by the value of the work begun here, may be seen, in the future, to have worthily served that ideal. These are the hopes of the Government of France which I have been asked to convey to you and these are the hopes which we, with the assistance of all of you, will strive to fulfill./.