CHAPTER IV

STRUGGLE FOR A CAPITAL DEVELOPMENT FUND

It has been shown in the preceding chapter that the main plank of India's criticism of the UN technical assistance programmes was their 'isolated' nature. India subscribed to the view that capital accumulation was the key factor in the process of economic development of underdeveloped countries. Insufficient rate of capital accumulation led to low productivity of labour which in turn resulted in a low rate of capital accumulation. The vicious circle had to be broken by injecting a large amount of capital from abroad. It was on the other hand believed that the development of underdeveloped areas could take place on the same lines as those of older colonial countries like USA and Canada. It was urged that underdeveloped countries should rely as far as possible on their own resources and should build up their economies with incentives to private enterprises. Even the foreign capital that they would require should be obtained through private channels.

The above analogy between the older colonial countries and the contemporary underdeveloped countries,

1. For a short critical assessment of the capital accumulation approach to the economic development of underdeveloped countries see, S. Herbert Frankel, The Economic Impact on Under-developed societies (Oxford, 1953), Essay IV and V.
however, was untenable. The latter were engaged in the process of economic development under vastly different conditions which made considerable reliance on foreign capital almost indispensable. There were available three main sources of foreign finance. First, the traditional source of foreign private capital, second, bilateral official, i.e. government to government finance; and third, the International Bank of Reconstruction and Development. It was India's belief that all these existing sources of foreign finance left an important gap in international financing of the economic development of underdeveloped countries. It had to be filled by creating a new international agency under the aegis of the UN, with the responsibility of financing the social and economic overheads in the underdeveloped countries.

The proposed agency, which was named Special United Nations Fund for Economic Development (SUNFED) was first mooted by the Indian Delegation. Soon it caught the imagination of the entire group of underdeveloped countries and become a subject of intense diplomatic struggle between them and the industrialized ones. It would be our endeavour in

this Chapter to trace this vital episode of economic diplomacy from the point of view of India.

Soon after independence the Government of India declared, through the Industrial Policy Resolution, its attitude towards domestic as well as foreign private capital. It was only to be expected from her, as indeed from all newly independent countries, to toe a cautious line with regard to foreign finance. The colonial bondage had been destroyed after a prolonged and bitter struggle against Britain. And the most important concern was to guard against the danger of relapsing into what came to be known in the post-war world as "neo-colonialism". It would be a travesty of independence if the control of the country's economic affairs passed into the hands of the foreign powers. Foreign capital - both official and private - was a strong means of such control. While bilateral official credits could be considered on a case-by-case basis by the Government, it was necessary to have a well-defined and long-term policy regarding foreign private capital. The Industrial Policy Resolution of 1948 was such an attempt. While it allotted reasonable scope for foreign private capital in the country's programme of economic development, the whole tenor of it indicated the resolve of the Government to keep

3. For the summary of the statement, see Commerce (Bombay), 10 April 1948.
it within strict limits. The announcement regarding Government's power to nationalize any industry - foreign or domestic - was to be a constant reminder to the foreign capitalists of their position vis-à-vis the national Government.

India has been a founder-member of the World Bank and has looked upon it as an important post-war innovation in the field of foreign finance. The institution, however, inevitably suffered from certain limitations so far as the underdeveloped countries were concerned. Those limitations we will have the occasion to discuss in the course of this Chapter.

In regard to the official bilateral capital flows, the US was the only country to which India could look for any substantial assistance. For the war had severely wrecked the economies of the European countries which were therefore themselves at the receiving end. The announcement by the US Government in early 1948 of a multi-billion Marshall Plan for European economic recovery spread a wave of optimism in India. A similar US plan for the underdeveloped countries of the world was a recurrent theme in India in the next few years.

When, for instance, Grady, the then US Ambassador in India, while addressing the Indian Council of World Affairs, New Delhi, compared ECAFE to ERP, it was hoped that the US would back up a plan for the economic recovery
of Asia. Though the scope of the statement was whittled down by Grady's explanation later at the Press Conference as well as at the ECAFE session, the suggestion was again made by the Indian delegation in the UN as late as 1950.

I

The Objective is Defined (1949-1951)

From the beginning India had not attached undue significance to international security problems arising from the Cold War. Nor was she enthusiastic about creating UN peace-making machinery to meet the problems of security in general. In her opening address to the General Assembly in September 1947, Mrs Vijaya Laxmi Pandit, the leader of the Indian delegation, referred to the dire want and poverty prevailing in Asia and observed that "The conflict of ideology...seems so sadly irrelevant to these great human problems; problems that vitally affect a half of the world's population".

4. Commerce, 29 May 1948. The fact that the address was given on the eve of the third session of ECAFE to be held at Ottacamund in India, was believed to be significant. Grady, who was to lead the US delegation at the forthcoming ECAFE session did not, however, intend to suggest Asian counterpart of ERP. Immediately he held a Press Conference to clarify his statement at the Indian Council of World Affairs.

5. GAOR, session 5, 1950, 2nd Committee, Meetings, mtg. 122, p. 37.

Also at the fifth session of the General Assembly, India did not support Sections C and D of the Uniting for Peace draft resolution, which purported to create a military set-up within the UN. Explaining India's abstention from voting on the resolution as a whole, her representative asserted that the main task before the UN was to improve its machinery for the tasks of peace which mainly included stimulating respect for human rights and freedoms and intensification of efforts "to achieve conditions of stability and progress particularly in underdeveloped areas". 7

In striking contrast to her attitude towards the security aspect of the UN, India vigorously set upon the task of gearing the organization to the economic tasks with which it was entrusted by the Charter. It was, therefore, no coincidence that the UN Sub-Commission on Economic Development headed by an Indian economist, V.K.R.V. Rao, was the first to highlight the need for financing non-self-liquidating projects through an international agency working within the framework of the UN. 8 The Sub-Commission neatly formulated the overall issue of financing economic development of underdeveloped countries. Though it placed primary

7. GAOR, session 5, 1950, 1st Committee, Meetings, mtg. 369.

8. Report of the Third Session of the Sub-Commission on Economic Development. ESCOR, session 9, 1949, Supplements, supplement No. 11B.
reliance on the domestic resources of the underdeveloped countries themselves, the need for foreign capital was considered to be most vital in so far as it enabled such countries to get foreign equipment and technique. After having assessed the possible contribution which the

9. The Sub-Commission listed three existing sources of international finance and brought out the limitations from which they suffered:

(1) **Private foreign finance** - It was acknowledged that equity investments were advantageous from the point of view of the underdeveloped countries' balances of payments in depression periods and the technical skill and know-how which were generally associated with the foreign private capital. The underdeveloped countries were however, anxious to see that private foreign capital "resulted in the development of their economic resources, in the industrial education of their people, in the sharing of by them of the technical know-how and in the creation of conditions which would result in the eventual freeing of their economies from dependence on foreign capital." The Sub-Commission, on the other hand indicated that the private investors in the capital exporting countries appeared hesitant to make investments abroad in the absence of certain conditions concerning the security of their investments, the transfer of their profits and the effective management of their operation. Such differences between the respective positions of the capital exporting and capital importing countries necessarily restricted the scope of private foreign capital in the underdeveloped countries.

(2) **Inter-Governmental Financing**: The Sub-Commission pointed out that inter-governmental finance was preoccupied with political and military rather than economic factors. Moreover the underdeveloped countries as a whole shared only to a limited extent in such credits.

(3) **International Finance**: The Sub-Commission reorganized that the finance available through the World Bank could be increased much beyond the subscriptions of Member Governments by floating loans in the open market and providing guarantee to such loans. However, the terms on which the World Bank Credit would be made available limited its effectiveness to the underdeveloped countries which could not always satisfy the Bank's preconditions for could carry the almost commercial interest charges involved.
existing channels of foreign finance could make to the
economic development of underdeveloped countries, the Sub-
Commission hit upon the central issue, namely the financing
of those projects which could not pay their way but which
were indispensable in the process of economic development.

The Indian expert on the Sub-Commission, V.K.R.V.
Rao submitted in this context a proposal for a new inter-
national agency which he named as United Nations Economic
Development Agency. 10 This was the embryonic form of the
controversial SUNFED. The proposed agency operating under
the UN, and exclusively for underdeveloped countries, was
to obtain its funds from the voluntary contributions from
Member Governments and to finance projects of economic
development which were not productive in the banking sense.
Rao outlined the scheme in the following words:

UNEDA is not expected to function as a
philanthropic body, ready to give away money
to underdeveloped countries asking for foreign
funds; while it is true that it will be
primarily concerned with projects not normally
passable by orthodox banking criteria, it does
not mean the financing of wild-cat or senti-
mental schemes. Projects for economic develop-
ment calling for the aid of UNEDA will have to
stand the economic test, in the sense that their
completion will result in raising the produc-
tivity of the underdeveloped areas and the
standard of living of their peoples largely by

providing the basic conditions for ensuring the efficiency and successful operation of the more orthodox projects of economic development...." (11)

This proposal, however, carried no conviction with the Economic and Employment Commission which represented the Economic and Social Council as a whole.12 While, in spite of


12. The World Bank also reacted against the proposal. In his address to the Board of Governors, the World Bank President, Black made it clear that the Bank was able to meet all the legitimate capital needs of underdeveloped countries. The suggestions such as made by the Expert Group were, in his opinion, out of place. Such suggestions he felt were based on hazy calculation of what was available and what really could be used. "They are made", he stated, "without consideration of the seriousness of the obligation a country assumes when it incurs debt. They ignore the frustration and bitterness a country invites when it shoulders an obligation greater than it can afford...." Black on the other hand, agreed with Rockefeller Committee in its recommendations regarding outright grants to the underdeveloped countries. See Summary Proceedings of the 6th Annual Meeting of the Board of Governors of the IBRD, 1957.

The World Bank opposed SUNFED because of its political administration. The only way the Bank could agree to giving lenient loans was to have them disbursed under its own supervision. This was finally accepted in the form of International Development Association. For a detailed account of IDA see James H. Weaver, International Development Association: A New Approach to Foreign Aid (New York, 1960).
the Commission expressing strongly against the creation of new international machinery, the Sub-Commission continued at its fourth session to draw up "an almost unbeatable case" for the proposal, the Council engaged itself in a leisurely debate on the general issues of financing economic development. The Council, which was dominated by industrialized countries assumed an unenthusiastic and even obstructionist attitude towards the proposal of UN Capital Development Fund. The General Assembly, on the other hand, vigorously attempted to shake the Council out to its indifference. The tensions arising out of such discordant positions between the Council and the Assembly was a significant feature of the controversy over the proposal.

The Council resolution 294(XI) was a typical illustration of its attitude. Amidst a long homily as to what the underdeveloped countries should do and what they should not do, it merely recognized the necessity of financing non-self-liquidating projects but expressed with complacency that the World Bank's announcement of "new" policy would be adequate for the purpose. The World Bank


in its fifth annual report had declared that the Bank would not henceforth adopt the "project approach" rigorously and that it would also as far as possible meet the local currency costs of the projects sanctioned by it.

During the course of the 10th, 11th and the current sessions of the Council the Indian delegation had found that the proposal for a UN Capital Development Fund, if not lifted to the intergovernmental consultation level, was in danger of being lost at the general discussion level itself. This would be the inevitable outcome if the question was tossed back and forth between the Council and the Economic Employment and Development Commission which, though composed of all members of the Council, was an expert body attached to the Council and not a representative body of the Council. If the Council was expected to make some headway on the issue, it was essential that it had at its next, i.e. 13th session some agreed position as a basis for making concrete recommendations to the General Assembly. The General Assembly was in fact a step ahead of the Council. In November 1950, it had specifically asked the Council to make "practical" suggestions, in the light of the Member Governments' views in regard to the expansion and steadier flow of foreign capital, more particularly for financing the non-self-liquidating projects. These the Council

16. General Assembly Resolution 400 (V). Even its previous sessions' resolution 306 (IV) the Assembly had expected the Council to make recommendation for international action.
was expected to submit to the Assembly at its 5th session in 1951.

The Indian delegation therefore jointly with Chile, Mexico and Pakistan attempted to move the Council to set up an Ad Hoc Committee composed of properly qualified experts representing all the Member Governments of the Council and two non-member Governments. The draft resolution would have the Ad Hoc Committee consider the means of "improving or augmenting existing international machinery" for obtaining additional international funds for underdeveloped countries.

It was true that the idea of UN Capital Development Fund was still in a rudimentary form. And it was also true that the magnitude of the funds involved was not yet known. The Group of Experts on measures for Economic Development of underdeveloped countries had been working on the problem in general terms. Its report would no doubt be an important basis on which the General Assembly would

17. UN Doc. E/L.153.

18. Appointed under ECOSOC Resolution 290 (X) "to prepare in the light of the current world economic situation and of the requirements of economic development, a report on the unemployment and under-employment in underdeveloped countries, and the national and international measures required to be reduced such unemployment and under-employment". This report was to be counterpart to the earlier report on measures required to achieve full employment in economically more developed countries. National and International Measures on Full Employment, Doc. 1949, UN Sales No. 1949, III, A.3.
rely for its decision. The Indian delegation, however, felt that the proposal to create a new UN agency to fill the gap in the existing international financial institutional framework had created considerable political enthusiasm among the underdeveloped countries. It was, therefore, desirable to get them committed before it dissipated. Moreover, the industrialized countries which had not so far taken an irrevocable position in regard to the proposal could be hoped to be influenced in its favour given the initiative and commitment of a large number of countries.

The situation, however, did not warrant great optimism. The world political climate had undergone a basic change during the preceding year. The North Korean invasion across the 38th parallel had accelerated the armaments race with the result that the military expenditure of the US and its allies was fast mounting. Under such circumstances they could not reasonably be counted upon for a scheme the brunt of which would evidently have to be borne by them. In fact, by this time the US attitude toward the scheme had no more remained one of equivocation, but had become one of open hostility. In deference to the consensus in the Council, India agreed to drop the proposal of an Ad Hoc Committee in favour of an arrangement by which Economic Committee of the Council would meet a week before the next Council session to lay down the political basis for action by the Council.

Meanwhile, the report of the Group of Experts on Measures for Economic Development of Underdeveloped Countries
had been published. This group which included an eminent Indian economist, D.R. Gadgil, made a thorough analysis of the problem of unemployment and under-employment in the underdeveloped countries. The report estimated that the total capital needed for the economic development programmes in the underdeveloped countries to secure 2 per cent increase in their per capita income would be $19 billion a year. Since domestic sources were expected to contribute nearly $9 billion, a gap of $10 billion remained. This had to be filled with the external resources out of which $3 billion would necessarily be in the form of grants. The experts proposed for this purpose the establishment of an International Development Authority within the UN. It may be noted that the Agency proposed by this expert group was similar in its objectives and nature to the one suggested by V.K.R.V. Rao with the important difference that the former was expected to disburse grants to the underdeveloped, while the latter would instead extend credit on highly liberal terms.


20. Other experts were: Professor Cortez of National University of Chile; George Hakim, Counsellor, Legation of Lebanon, Washington; Professor W. Arthur Lewis, University of Manchester; Professor Theodore W. Schultz, University of Chicago, USA.
With the expert group's report, the Council was now in a position to make concrete recommendations to the General Assembly. However, the Economic Committee of the Council, which met as scheduled, one week before the Council Session, did not even preserve the status quo in regard to the proposal of a UN Capital Development Fund. The draft resolution which it recommended to the Council by an overwhelming majority of fourteen to none with India and two other members abstaining, requested the Secretary-General to keep under active consideration the methods and problems of domestic and external financing and present to the Council proposals in this regard as soon as practicable. Apart from its aversion to any kind of capital development fund, the Economic Committee repeated the usual insistence of the industrialized countries on accepting their private capital fully on their terms. It recommended, for instance, that the underdeveloped countries should provide assurances through treaties or otherwise that foreign investors will not have their property expropriated without "prompt, adequate and effective compensation". They were further asked to undertake to eliminate "discriminatory" treatment of foreign enterprises.

21. UN Doc. E/2061.
22. Ibid., paragraph 7(b). Emphasis added.
23. Ibid., paragraph 7(c).
The Indian delegation felt that the question of protecting foreign private capital had been overstated by the Economic Committee. Moreover, it attempted to postpone the scheme of a UN fund for an indefinite period under the cover of impracticability. India therefore decided to counter, in the Council, the Economic Committee's position.

It had never been India's view that foreign private capital per se should be discouraged. She was nevertheless anxious to see that national independence was not compromised in any way for the sake of economic betterment of the lives of her people. Economic development with foreign collaboration and assistance was looked upon as an unavoidable but transitional stage to be followed by a self-sustaining economy which was but another name for an equal and honourable place in international political life. On the other hand, the lives of the millions of her inhabitants were economically so depressed that their speedy amelioration through an accentuated development programme was a dire social necessity within the country. And if one of these twin objectives were to be given precedence over the other, it was certainly the former. This indeed was the position which was generally shared by all the underdeveloped countries.

The Indian amendment to the Economic Committee's

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draft resolution sought to guarantee "adequate" compensation to the foreign investors in the event of their property being taken over by the national governments, and "equitable" measures in regard to taxation of their property and incomes. But the most important provision of the amendment was to ask the Secretary-General to formulate "specific proposals" regarding further "action" to be taken towards establishing an International Development Authority recommended by the Group of Experts.

There had been more than adequate discussion and studies on the subject during the preceding three years and the question had been referred from one body to another. It was high time that an end was put to this administrative evasion. It was true that the industrialized countries, from the beginning, had shown, for reasons of their own, their disinclination towards the scheme. India was fully aware of these circumstances and had the least desire to compel those who were not prepared to take action. It was for this reason that the Indian delegation did not go as far as the Chilean proposal\(^ {25} \) that the Assembly should entrust the Council with the responsibility for establishing a Special Fund. It was made clear by the Indian representative that his amendment did not imply any commitment on the part of governments.\(^ {26} \)

\(^{25}\) UN Doc. E/L.195.

\(^{26}\) ESCOR, session 13, 1951, Meetings, mtg. 505, p. 230.
And he showed his willingness to make a suitable drafting change. The Indian position finally won acceptance of the industrialized countries in the Council with the result that the Council considerably revised the draft resolution of the Economic Committee particularly in respect of a UN capital development fund.

The Council resolution27 requested the Secretary-General to formulate a series of methods deemed practicable for dealing with the problem of granting assistance, but this it did without either accepting or rejecting the proposal of an international development authority. Though the Council resolution was an improvement over the Economic Committee's position, it still caused sourness among the underdeveloped countries. For the General Assembly had categorically asked the Council to consider the practical methods for achieving a larger and steadier flow of foreign capital paying special attention to the financing of non-self-liquidating projects and to submit its recommendations to the sixth session of the Assembly.28 The Council, while paying lip service to the Assembly directive, showed no inclination to stick to this schedule.

This could be understood to mean that the idea of a capital fund was not practicable in view of the prevailing international tensions. The underdeveloped countries in any

27. ECOSOC Res. 368 (XIII).
28. GA Res. 400 (X).
case had been living on hope for many years; they were to continue in that hope till the time world became more settled. It was in this spirit that the Indian delegation looked at the situation. What India insisted upon, however, was not the UN commitment to action, but to the idea itself. But the Council resolution, while specifically asking the World Bank to consider the question of establishing an International Finance Corporation, was carefully non-committal in regard to the UN Fund.

Naturally, when the General Assembly met in its sixth annual session (1951-52), it could do nothing but to ask the Council once again to submit to the Assembly at its next session a "detailed plan for establishing, as soon as circumstances permit, a special fund for grants-in-aid and for low-interest, long-term loans to underdeveloped

29. The IBRD, by the terms of its Articles of Agreement, is precluded from making equity investment and non-guaranteed loans. It is therefore unable to give direct and substantial help to private enterprise. The U.S. International Development Advisory Board had therefore suggested in 1951 that an International Finance Corporation should be set up as a World Bank affiliate. It was recommended that the IFC should be authorized to give loans direct to the private enterprises and make equity investments in partnership with the private investors.

countries. The manner in which the vote was divided on this resolution reflected stiff opposition from the industrialized countries. The entire group of sixteen industrialized countries threw their weight against the resolution which was backed by thirty underdeveloped countries. The Soviet Bloc chose to be neutral. It had in fact been attempting to dissuade the underdeveloped countries from pursuing the objective of the UN Fund. At the time of the resolution the Soviet Union held the position that SUNFED over-estimated the significance of foreign capital - (which had necessarily to be Western) and tended to encourage Western intervention through the financial channels. This was in keeping with the general negative attitude of the Soviet Union both to the UN and to the underdeveloped countries. Later, with the passing away of Stalin in 1953 and with a sharpened awareness of the importance of the underdeveloped countries most of which were uncommitted, the Soviet Union shifted its policy to such an extent that it became a major supporter of SUNFED by 1955.31

30. GA Res. 520 (VI).

Be that as it may, the situation in regard to SUNFED was not at all reassuring when the General Assembly ended its sixth session in 1951. While the Communist Bloc was exposed to the charge of "political proselytism" due to the wide credibility gap between its protestations of solidarity with the group of underdeveloped countries, and its actual support to the measure backed by the overwhelming majority of the latter; the industrialized countries left no doubt about their resolve to kill the initiative taken in regard to that measure. This was further evident from the Council's decision at its 14th session to bring into existence a new expert committee - the Committee of Nine - which was entrusted with formulating by 1953 a plan for the UN Fund for economic development. Thus the Council avoided taking any concrete decision for another year which was considered by many as a device to keep the proposal in a state of suspended animation followed by silent burial.

II

Revival of the Idea (1952-1957)

By the time, however, the Economic and Social Council met for its 16th session in 1953, the fate of the

32. ESCOR, session 14, 1952, Meetings, mtg. 609, p. 298. Speech of the Chilean delegate.

33. ECOSOC Res. 416A (XIV).
Special Fund idea appeared to be quite optimistic. For the first time since 1950 fighting had ceased in Korea Mrs Vijya Laxmi Pandit, Chairman of the Indian delegation, who had been elected President of the General Assembly for its 8th session (1953), gave expression to the new climate of hope:

...the Korean armistice and the desire of all parties for a negotiated settlement would so change the climate of the Assembly as to make it possible for opportunities for world peace to be more successfully explored." (34)

The Committee of Nine had submitted its unanimous report to the Council: "A Special United Nations Fund For Economic Development". 35 The Report was a comprehensive document comprising four aspects of the proposed organization,


35. UN Doc. 2381. UN Publication Sales No. 1953, II, B.1. The Committee was appointed by the Secretary-General on March 18, 1953, under ECOSOC resolution 416A(IV) and was composed of the following experts who worked in their individual capacity: S. Amjad Ali of Pakistan, President of the ECOSOC during 1952; Fernand Bandhuin, Professor of Economics at the Catholic University of Louvain, Belgium; C.V. Bramsnaes, Member of the Board of Directors of the National Bank of Denmark, Miguel Cuaderno, Governor of the Central Bank of the Philippines; Sir Cyrill Jones, Director of the Mercantile Bank of India Ltd, London and former Finance Secretary to the Government of India; Leo Mates, Permanent Representative of Yugoslavia to the UN; Eduardo Suarez, Member of the Board of Directors of the Bank of Mexico; Wayne C. Taylor, former President of the Export-Import Bank, USA.
namely,

a) the income of the fund,

b) its operations,

c) the disbursement of its resources, and

d) its structure, particularly its control and management. (36)

It was now for the Council to endorse and transmit the Report to the General Assembly. The US and other industrialized countries had by now changed their strategy in

36. Briefly, the recommendations of the Committee were as follows:

(a) The Fund should consist of voluntary renewable contributions by governments, rather than of paid-up capital subscriptions, contributions should be made in local currencies and be convertible only as agreed.

(b) A country in order to qualify for assistance from the Fund, should be a member of it, subscribing to its policies and principles, making an appropriate voluntary contribution to the operational budget, together with an assessed contribution to the administrative budget.

(c) Allocation of resources among governments should be guided by the following principles:

i) the merits of the individual applications,

ii) projects promoting the purposes of the UN or special objectives given high priority by the UN,

iii) projects capable of yielding early results,

iv) the maintenance of reasonable geographical balance in allocations.

(d) The Fund should be established as a separate administration, but within the framework of and in close relationship to the UN. All participating governments, meeting annually as the General Council should constitute the source of authority.

(e) The Fund should not be established until at least $250 million have been pledged for its initial operations by at least 30 contributing governments.
regard to the SUNFED proposal. They agreed to its conceptual existence in a manner which in effect denied its actual realization. The draft resolution submitted by the US delegation made the creation of SUNFED conditional on the attainment of internationally supervised worldwide disarmament. It was thus for the first time since the proposal was mooted in the UN that the two issues of disarmament and economic development were linked together in this way.37

This kind of a link raises important questions. There can be no dispute with the contention that the resources of the industrialized countries which have been tied down in armament programmes, if released, could be used for the benefit of the underdeveloped countries. It is, however, quite another thing to put disarmament as a precondition for any long-term commitment to economic development of underdeveloped countries. For disarmament itself depends, to a large extent, on the overall conditions of stability and peace in the world as a whole. It has to be borne in mind that the underdeveloped part of the world, for the very reason of its underdevelopment has an

37. Indian delegation itself had moved in 1950 in the First Committee of the General Assembly a proposal recommending the creation of UN Peace Fund and asking each member to prepare a scheme for the progressive reduction of armaments for the contribution to the above Fund. Resources released from disarmament were, however, implied, to be one of sources of finance, GAOR, session 5, 1950, Annexes, Agenda Item 69, Doc. A/C.1/598.
unsetting effect on the general prospects of disarmament in the world. In the long run the relationship between disarmament and economic development should be viewed as more of a complementary character than an exclusive one. World-wide alliances and defence structures may answer the needs of security in the immediate context. However, if simultaneously no meaningful effort is made towards creating a more enduring basis for peace and stability, the world community would inevitably find itself in a state of perpetual tension and frustration. SUNFED was looked upon by India and the rest of the underdeveloped countries as the first significant step towards the above objective. Moreover, it had been repeatedly stated by them that the new organization would start on modest lines. The question of the availability of large funds had therefore no relevance during the period of its initial existence.

One may look at the question of finance from another way. Finance is not the supreme consideration for any country when it is called upon to face a challenge to its vital national interests. In the contemporary world situation to understand vital national interests in the traditional and narrow sense would mean lack of political wisdom and foresight. There was therefore no justification for the kind of link between disarmament and SUNFED that was attempted to be established in the US draft resolution in the Council.
The Indian amendment to the US draft resolution put the SUNFED proposal in relation to disarmament in the right perspective. It inserted a new paragraph in the preamble of the US draft resolution stating that "the investment needs of the underdeveloped countries require immediate attention so as to secure the fulfilment of these aims" (namely, strengthening the United Nations in its mission of guarding peace and security of all peoples etc.).

The amendment also substituted the following draft declaration for the US draft declaration:

We, all members of the United Nations, in order to promote higher standards of living and conditions of economic and social progress in the underdeveloped areas of the world, stand ready to make contributions to an international fund, within the framework of the United Nations...and also to devote to the fund a portion of the savings which may result from any international plan of world-wide disarmament."

That the Council would not accept the Indian amendment which was diametrically opposed to the US draft resolution was a foregone conclusion. The compromise resolution retained the US draft declaration but recommended

38. UN Doc. E/L.537.

39. The US draft declaration was as follows:

"We, the Members of the United Nations...stand ready to ask our peoples, when genuine progress had been made in internationally supervised world-wide disarmament, to devote to an international fund for development...a portion of the savings achieved through such disarmament."
to the General Assembly to suggest further "steps" that might be taken towards establishing the Fund. When the matter came before the General Assembly at its 8th session (1953), the US representative attempted to pigeon-hole the proposal on the basis of the argument that the report of the Committee of Nine was sufficiently comprehensive to enable the United Nations to formulate the detailed scheme of SUNFED when the circumstances were favourable for its establishment. There was therefore no need in his opinion to dwell further on the proposal.

The proposal, however, had by this time gained more support in the UN. The Netherlands, for instance, gave unqualified support to the establishment of SUNFED and the Soviet Union assumed a positive attitude towards it. These were significant developments encouraging the under-developed countries to go ahead with their scheme. The Indian representative made it clear that he had no objection to the US draft declaration being endorsed by the General Assembly. But along with it the Assembly should also consider the recommendation of the Council that the former take further "steps" towards the establishment of SUNFED when circumstances permit the UN to do so. \(^{41}\) The term "steps" in the Council's resolution could not be

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40. ECOSOC Res. 482 (XVI).
41. Ibid.
understood to mean preparation of yet another document on the subject. There was indeed a need for the Assembly to take the initiative. This it could do by inviting official comments of the Governments on the Report of the Committee of Nine.

With this purpose the Indian delegation introduced a draft resolution which was co-sponsored by nineteen other countries. It would have the Secretary-General invite detailed comments of Governments to enable the General Assembly subsequently to draft the statutes of the Fund. Since it would not commit Governments to the immediate establishment of the Fund, the objections of the industrialized countries were satisfied. With the approval of the draft resolution, with minor changes, by the Assembly, a way was opened for the proposal to be dealt with at governmental level. Scheyven, the President of the Council during 1953, who was instructed under the same resolution to consult Governments in regard to their moral and material support to SUNFED, continued his work until 1955.

The report submitted by Scheyven to the General Assembly late in 1955 mentioned three groups of countries having different attitudes towards the proposal. Several

42. UN Doc. A/C.1/L.206.

43. GA Res. 724B (VIII).

industrialized countries, mainly USA, UK, Federal Republic of Germany, Canada, New Zealand, Sweden and Switzerland in their replies, reiterated their earlier stand viz., the creation of a Special Fund contingent upon a general reduction in armaments expenditure. The underdeveloped countries, on the other hand, insisted that practical possibilities did exist for the immediate establishment of SUNFED. In this they now had the material support of a number of industrialized countries namely, Denmark, Italy, Norway, the Netherlands. Others like Belgium, France, Japan and Luxembourg also expressed their willingness to participate in the Fund subject to fulfilment of certain conditions.

With an increasing number of industrialized countries lending their support, SUNFED appeared no more to be a remote idea. The Committee of Nine had already given the contours of the proposed organization and the time had now come to proceed to the drafting of the statutes.

A draft resolution to the effect was therefore introduced by as many as thirty-two countries including India, in the General Assembly at its tenth session in 1955. In its operative part the draft resolution requested

45. n. 36.
46. UN Doc. A/C.2/L.271.
Member States to transmit not later than 31 March 1956 their
detailed views concerning certain specific questions
relating to the structure and operations of the Fund. It
also would have the Assembly establish an Ad Hoc Committee
to analyze the replies of Governments in the light of which
the statutes would be framed. With the approval, in
substance, of the thirty-two-Power draft resolution by the
General Assembly, the SUNFED scheme moved almost to the
point of realization.

At that time two international events took place
which were significant from the point of view of the world
political situation in general and underdeveloped countries
in particular. With the conclusion of Geneva Conference in
1954 war came to an end in French Indo-China resulting in
considerable relaxation of the world political climate. As
the Cold War showed signs of thaw, the Big Powers could be
expected to turn their attention to the more steady approaches
to international peace and security. The second event was
of more specific and immediate relevance to underdeveloped
countries. It was the historic conference of the Non-aligned
countries at Bandung in 1955.

All the countries, except Japan, that had gathered
at Bandung, were underdeveloped and considered rapid economic
development as the most important pre-requisite for the
sustenance of the policy of non-alignment. The conference,
which signified the fact that a large group of underdeveloped
countries, particularly Asian-African, was an important
international political force, made a specific reference to SUNFED and urged the UN to bring it into existence as early as possible.

In the context of these developments, the morale of the group of underdeveloped countries was considerably heightened and several representatives suggested immediate action on the Ad Hoc Committee's final report submitted to the General Assembly at its eleventh session in 1957. India did not see much point in the US-UK position according to which international agreement on disarmament must precede the creation of the UN Fund.

Krishna Menon, leader of the Indian delegation, while addressing the General Assembly in 1955, had forcefully exposed the faulty logic behind that position. "All governments", he said, "raise special money for the arms they want. It is not as though there was a pool of money somewhere, part of which went to arms." India had so far agreed to the compromise resolutions which were meant to give more time to the industrialized countries to give steady thought to the proposal. The Indian delegation now decided to go ahead with it despite resistance from the major industrial powers. In this it secured the support of as many as forty countries - a


number that was greater than half the membership of the UN. The Forty-three-Power draft resolution introduced in the Assembly at its eleventh session in 1956-57 asked the Ad Hoc Committee to proceed with work on the different legal forms SUNFED could possibly take.49

By the time, however, the proposal came nearest to taking a concrete shape, the US Government brought forth the idea of a Special Projects Fund. The intricacies which arose owing to the interlocking of these two different proposals have been already analyzed and discussed in the preceding Chapter.50 This was a crucial phase in the history of SUNFED and it appeared as though the idea would never reach beyond the limits of its mythical existence.

III

Towards Realization of SUNFED - (1958-1966)

The protracted struggle for the UN capital development fund continued despite the reverses suffered by the underdeveloped countries in the fifties. India had been prominently associated with the struggle throughout. She had pinned her hope both in the solidarity in the ranks of the underdeveloped

49. UN Doc. A/C.2/315/Rev.2.

50. A detailed analytical account of this phase has been given in Chapter III above. See pp. 35-20.
countries' group and on the political foresight of the industrialized countries' group. The proposal had somehow survived many odds so far. There was, however, one more hurdle which it had to overcome.

In the enthusiasm that was created by the establishment of the Special Projects Fund (known as the UN Special Fund) India sensed the danger of the UN Capital Development Fund quietly lapsing into history. This she could not allow to happen after years of sustained efforts and hope. Once again, therefore, the proposal got moving when the General Assembly's commitment was secured for the continued review, as a separate subject on its agenda, of the progress towards the establishment of the UN Capital Development Fund. 51

Within a year's time the Assembly came forward at its fifteenth session in 1960-61 with the decision, in principle, that the UN Capital Development Fund shall be established. 52 A Committee of twenty-five members, including India, was nominated by the President of the Assembly to frame draft legislation for the Fund. 53 Though the Committee included the opposing industrialized countries viz., Canada, France, India, Indonesia, Iraq, Italy, the Ivory Coast, Japan, the Netherlands, Nigeria, Pakistan, Peru, UAR, USA and Yugoslavia.

51. GA Res. 1317 (XIII).
52. Res. 1521 (XV).
53. The Committee was composed of: Argentina, Brazil, Burma, Canada, Chile, Czechoslovakia, Denmark, France, Ghana, India, Indonesia, Iraq, Italy, the Ivory Coast, Japan, the Netherlands, Nigeria, Pakistan, Peru, UAR, USA and Yugoslavia.
Italy, Japan, UK and USA, they, while accepting nomination to the Committee, made it clear that their participation in the Committee work did not mean in any way their commitment to finance the Fund. 54

In the meantime the World Bank had created a new agency within its own jurisdiction. This agency, International Development Association, was evidently created to offset the urge for the UN Fund. 55 The World Bank was opposed to SUNFED because of the political control of the UN over it. While agreeing to the necessity of lenient loans, it insisted on having their disbursement under its own supervision and through its own organizational medium. Suggestions had been made in the US both at official and unofficial levels in regard to financing the social and economic infrastructure in the underdeveloped countries through a new multilateral agency. 56 And the US Government had set up in 1957, in response to the US International Development Advisory Board,

54. ESCOR, session 32, Annexes, Agenda Items 2 and 5, Doc. D/3514.


56. See Partners in Progress: A Report to the President by the US International Development Advisory Board (Washington, D.C., 1951). See also, Robert G.A. Jackson, The Case for an International Development Authority, Address to the Maxwell Graduate School of Citizenship and Public Affairs, Syracuse University, Syracuse, 1959.
a Development Loan Fund within the US with an initial capital of $700 million. The International Development Association was thus the result of new economic thinking in the US. It was, however, a far cry from SUNFED. Whereas the former was a major banking facility, the latter was a lofty institution fully committed to the sustained economic development of the underdeveloped countries. With a subscribed capital of $1 billion, payable over a period of five years, IDA's point of reference was evidently a limited one. Moreover, it was under the direct control of the Bank where authority was based on weighted voting.

For these reasons IDA could not succeed, as was expected by some industrialized countries, in offsetting the pressure of underdeveloped countries for the UN Capital Development Fund. By this time, in fact, the entire gamut of international economic relationships as between the developed and the underdeveloped countries of the world, was poised for being thrown into the crucible. The demand of the underdeveloped countries for convening the United Nations Conference on Trade and Development had gathered, thanks to the untiring efforts of the Indian diplomats at the UN, who had exerted sufficient political pressure under which the Assembly decided in 1962 to have the Conference convened before 1964. It was this new political forum which would thereafter take the mantle from the Council and the Assembly with respect to the establishment of the UN Fund.
There were two probable methods for establishing the UN Fund. First, it could come into existence by way of gradual expansion of the Special (Projects) Fund. Second, it could be established rightaway on the basis of the draft statutes that were submitted by the twenty-five Nation Committee. When the General Assembly had decided to set up the Special (Projects) Fund in December 1957, a way was kept open for its eventual expansion and conversion into a Capital Development Fund.57

India was foremost in securing the inclusion of the provision in the resolution. And after the Special (Projects) Fund was actually set up in 1958, India had vigorously maintained that its establishment far from meant the indefinite shelving of SUNFED. If anything, its setting up had brought the latter organization nearer than ever. It was India's contention that the Special (Projects) Fund was an integral part of SUNFED. The reason why India held steadfast to this position was that she had discerned that a strong probability existed of the Special (Projects) Fund being mistaken for a substitute for SUNFED. It was indeed

57. General Assembly Resolution 1219 (XII) significantly contained a provision to that effect. Part III of the resolution stated that "as and when the resources respectively available are considered by the General Assembly to be sufficient to enter into the field of capital development,...the Assembly shall review the scope and future activities of the Special Fund and take such action as it may deem appropriate." General Assembly Resolution 1240 (XIII) reaffirmed it under its part C.
a difficult exercise in economic diplomacy to ward off from the supporters of SUNFED any feeling of resignation and complacency and at the same time to be prepared to accept such useful but limited schemes as Special (Projects) Fund, International Finance Corporation and International Development Association.

When the question came before the United Nations Conference on Trade and Development at Geneva in 1964, India gave full support to the Conference recommendation to the Governing Council of the Special (Projects) Fund to the effect that it continue—

enlarging its activities in assisting governments... to find the necessary financing to implement the recommendations of Special Fund pre-investment surveys"; and

broadening its criteria so as to include increased financing of demonstration projects, thereby playing an effective role as a bridge between pre-investment and capital investment." (58)

Earlier, India had taken the lead in initiating a proposal of this kind in the twenty-five-Nation Committee.59 And the prospective merger of EPTA and the Special (Projects) Fund


By another resolution the Conference recommended that the UN Capital Development Fund should start its operations at an early date. See, ibid., Annex A IV 7.

Fund was considered by her as conducive to the above scheme. However, from time to time she had made it clear that her advocacy of the "transformation approach" would not prejudice her support to the second alternative in regard to the method of establishing the UN Capital Development Fund. By 1966 the Governing Council of the UNDP indicated its cool attitude to the UNCTAD recommendation in respect of transforming the UNDP into a full-fledged Capital Development Fund. India, therefore, decided to clinch the issue at the twenty-first session of the General Assembly. The draft resolution which was subsequently adopted by the Assembly, co-sponsored by India and forty other delegations had the General Assembly "decide to bring into operation the United Nations Capital Development Fund as an organ of the General Assembly, which shall function as an autonomous organization within the

60. The Ad Hoc Committee of the ECOSOC had recommended in its report (UN Doc. E/3639) to have the Secretary-General to study the possible advantages and disadvantages of a merger of some or all technical assistance programmes. The Secretary-General gave a favourable opinion (UN Doc. E/3850) for the re-organization of the existing arrangements. He stated that the complex pattern of the aid programmes of the international organizations coupled with the pressure for the expansion of the operational activities of the UN necessitated the merger of EPTA and Special Fund into a new Programme, namely, United Nations Development Programme. The General Assembly at its 20th session in 1965 consolidated EPTA and Special Fund into UNDP. See General Assembly Resolution 2029 (XX).

It was thus after two decades of struggle and many vicissitudes that the institution of SUNFED (new known as Capital Development Fund) gained at least a documentary existence.

But this was not much of a happy conclusion for India and other underdeveloped countries, for the major potential contributors to the Fund refused to associate themselves with it, thus making the agency inoperative. The latter countries continued to maintain that the necessary amounts of capital should come from private sources, bilateral sources or from existing international institutions. India's position had been that private capital could not be expected to finance the kinds of projects which the Fund was meant to assist. Bilateral sources were restricted and often used for political purposes. And the existing financial institutions such as IBRD, IDA and IFC were too much under the influence of the capital supplying countries. Though the SUNFED episode sharply revealed the limits of the UN economic diplomacy, it served the interests of the underdeveloped countries in two respects. First, it provided a rallying point to them. Second, it placed the problem of development finance in its proper perspective thereby effectively exposing the weakness of the World Bank approach.