

institutions were urged to play a pivotal role in initiating, supporting and monitoring the internal adjustment programs to be implemented by the debtor countries. It was proposed that the MDBs increase their disbursements to the principal debtor countries by 50 per cent over recent levels to an annual average of \$9 billion during 1986-88. Taking scheduled repayments into account, this would generate \$20 billion in net new lending over the three years referred to in Secretary Baker's speech.

- New and expanded lending commitments of up to \$20 billion during 1986-88 by the private commercial banks to increase capital flows into debtor countries.

Secretary Baker tried to find a realistic compromise between international agreement on some general principles — especially the need to revive growth in the debtor developing countries — while maintaining the existing emphasis on a country-by-country approach. His initiative has bought time. It has also injected a much needed sense of momentum into international debt negotiations at a critical moment when country-by-country talks had bogged down in a mood of uncertainty and recrimination.

Reactions to the Baker Initiative

While there was satisfaction in international official circles that the U.S. Administration had adjusted its approach and now recognized the broader problems, the Committee has been made aware of criticisms of Secretary Baker's proposal. This initiative, by focusing mainly on the countries that constitute the principal debtors to the United States, understated the financial implications of the Third World debt picture viewed as a whole. The U.S. list of 15 debtor countries* was not accepted as definitive by other governments, the IMF or the World Bank. Canadian bankers told the Committee they would have added other countries of more relevance to the debt owed to Canadian banks. In any case, two more countries — Jamaica and Costa Rica — were subsequently added. Moreover, the calculations of the U.S. Administration were made before the dramatic fall in the price of oil at year-end 1985 and for this reason they underestimated the scale of the problem for oil-exporting countries such as Mexico. Estimates by the World Bank as to the net borrowings required for modest economic growth by even the Baker 15 countries illustrated that the U.S. funding proposal would be inadequate. In discussions with the Committee, Canadian bankers also suggested that the U.S. financing estimate was based on conservative assessments, particularly since Mexico would require such large sums. Furthermore, they pointed out that future new bank lending would have to be related to a case-by-case assessment of the creditworthiness of the borrowing countries. The Baker initiative, one Canadian banker concluded, lacked any concrete new undertakings that would lead to "voluntary" disbursement of the \$20 billion of new bank lending suggested.

Some debtor countries also were sceptical of the initiative. For example in December 1985, the Cartagena Group concluded that the "Baker Proposal was inadequate . . . since the amount of resources envisaged can hardly be large

* Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Ivory Coast, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia.