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CONTRIBUTORS
Trevor Bartram, Charles Caccia, Paul Evans

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NOTE TO READERS: Our pages are numbered sequentially from the start of the year to facilitate production of a cross-referenced index that will accompany December's issue.

The Debt Crisis: A New Ice Age Looms

The 1980s ended in a mood of euphoria as the glaciated communist regimes of Eastern Europe melted after decades of political and economic failure under the chilling legacy of Stalinism, their oligarchies and dictatorships calving like icebergs from a glacier. But as perestroika emerged in the mid-1980s to cause the gradual meltdown of resistance to change, the Third World remained locked in the frozen grip of sovereign debt. Josef Stalin's legacy of the 1930s and '40s may indeed be melting under the onslaught of change in Eastern Europe, but the fiscal legacy of the 1970s and '80s remains frozen for the underdeveloped and developing 'South'.

As much as the debt legacy has immense implications for the less developed countries (LDCs), Canadians also need to remember the unresolved 'debt crisis' has real implications for themselves, as taxpayers and as exporters of goods and services. For the debtor nations, the legacy is awesome, with the LDCs holding a combined debt of some $1.2 trillion! The cost of servicing these staggering obligations has had a pronounced effect on living standards in the debtor countries in the last decade; they fell by an average 10% in Latin America and 25% in Africa. This has immediate implications for Canadian companies as the export market demand shrinks. The broader implication is that credit from the world's commercial banks, so necessary to turn around the economic slide, is simply not forthcoming — now or in the foreseeable future.

Some of the industrialized world's political and economic leaders feel that the 'blame' for the mess lies principally with the LDCs, which are perceived as profligate, corrupt and generally ill-governed. This is true to some extent, but our own financial institutions also can be faulted; their greed for profits driven by the sudden influx of petro-dollars deposited by the surge of world oil prices in the '70s.

In the heyday of the '70s, the developed world's banks extended funds to the Third World, either as sovereign or 'semi-sovereign' debt, at rates comparable to commercial rates within their own domestic economies. But the loans to the LDCs were, to a considerable extent, not made for development that had any hope of generating returns sufficient to service those interest rates. Rather, much of the debt was established to finance much needed infrastructure in still underdeveloped societies. Quite reasonable projects were undertaken but not financed with the commercial rates. It should be recalled that much of North America's infrastructure was financed at below commercial levels, through low-interest municipal, railway and utility bonds and similar debt instruments.

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