

There are still major difficulties ahead. In some cases, the domestic measures required to repay external loans in a difficult economic environment have contributed to political instability and unrest. Developing countries' investment in their own long term development is severely constrained by debt-service and repayment obligations. At the same time, their export earnings are being threatened by new non-tariff barriers in the industrialized countries. Meanwhile, Western government aid and private financial flows to developing countries have stagnated. Many of the multilateral agencies, most importantly the World Bank's International Development Association (IDA), are not receiving enough funding from the richer countries to meet the requirements of Third World borrowing.

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The debtor countries themselves have an important responsibility to pursue policies that will improve their economic performance. They will have to make more efficient use of domestic resources. But these countries will need external support to succeed. The commercial banks will not play the same role in the future that they played in the 1970s in providing financing. Therefore, the role of other sources of financing — foreign direct investment, multilateral and bilateral aid and export credits — will have to be looked at carefully. The role of the IMF, the World Bank, and the regional development banks — and the adequacy of their resources — will be particularly important issues.

Western financial institutions — including Canadian banks and their Canadian clients — have a great deal at stake. The current international strategy adopted has avoided a world financial collapse. That strategy consists of gradual adjustment of the domestic economies of the debtor nations, some financing or rescheduling (from commercial banks, governments and international institutions, with the IMF playing a coordinating role) and economic recovery in the industrialized world. But the balance of payments situation in some debtor countries remains uncertain, and it is clear that the economic situations of developing countries have become key factors in the management of the global economy.

### **International Development Cooperation**

Canadian understanding of the diversity and complexity of the Third World has deepened and become more sophisticated. So, too, has our appreciation of the interests we have at stake. Trade and investment, immigration, environmental conservation and international peace and security have been added to our original, largely humanitarian, objectives. The prospects for pursuing these interests in the Third World have become increasingly linked to other key items on the international economic agenda — energy, debt and finance, trade and domestic industrial change.

It is important to Canada, on economic and security as well as humanitarian grounds, that the indebted countries of the Third World grow again economically. Prospects for the growth of Canadian trade and other economic relations with developing countries will depend in large measure on how the international trade and financial system accommodates those countries' development needs. Their capacity to export to developed countries is an important determinant of their capacity to import our products, to absorb investment productively, and to meet their financial obligations to us. It is also central to their own economic well-being.

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