reduction has been an important element in a strengthened debt strategy for middle-income countries. We very much welcome this development. Most important of all, however - indeed, the key to durable growth - is the growing recognition by developing countries themselves of the need to adapt their domestic policies to ensure greater comparability with a rapidly changing external commercial, economic and technological environment.

The critical need to ensure that domestic policies establish growth-oriented macro-economic domestic environments conducive to higher levels of productivity and increased competitiveness is now generally recognized by developed and developing countries alike. No country is immune to the need to adapt to rapidly changing circumstances. Adjustment policies are pursued not because of external insistence, but rather because they respond to national needs to place domestic economies on a more sound footing and coincidentally reinforce national sovereignty.

As the 1989 World Development Report notes, there is little doubt that over the past 15 years many developing countries have relied too much on external borrowing and too little on domestic resources. It is absolutely essential that borrowing countries implement policies designed particularly to mobilize domestic savings, stimulate investment and reverse capital flight. As a return to the levels of lending common in the 1970s appears highly unlikely, it becomes all the more important for developing countries to complement appropriate use of domestic savings with the attraction of inward investment, whether this be foreign direct or portfolio investment. Clearly, investment of private wealth will only occur in sufficient measure in situations where the investor has confidence in the safety and profitability of this investment. It is vital for governments to provide an economic framework which attracts and maintains the confidence of investors.

More efficient allocation of scarce resources is best achieved through the unfettered operation of market forces where prices, interest rates and exchange rates are determined by market-oriented decision making. Governments need to establish and/or strengthen domestic policy environments which foster entrepreneurial innovation and risk and which encourage economic diversification with emphasis on the export sector. Declining terms of trade for many commodities have made all too painfully obvious the dangers of leaving all one's economic eggs in a single basket. Diversification, however, presupposes, among other things, the availability in sufficient quantity of trained personnel. For many countries a higher emphasis on the promotion of human capital is needed. Investment policies need to be oriented to growth industries, particularly those in the private sector which are generally more dynamic than state-operated institutions. Control of inflation is vital. As the 1989 report of the Economic Commission for Latin America noted, the poor performance of most countries in the region was principally due