

developing countries. An abrupt change took place in 1982, when Mexico was unable to meet the scheduled repayments on its debt. Since the Mexican crisis erupted, the banks have been compelled to reschedule many of the loans and to extend their terms. They now find themselves locked into a situation very different from their normal lending patterns and from which there is no quick or easy exit.

In October 1985, the U.S. Administration gave new emphasis to efforts to resolve the international debt crisis by proposing that measures undertaken by debtor countries to produce monetary stability and budgetary controls should be matched by a deliberate policy of new lending by the commercial banks and international financial institutions so as to encourage sustained economic growth in Third World countries. Chapter one examines this initiative, commonly known as the Baker Plan, assessing its importance and some of its deficiencies. The chapter concludes with a review of the important debt rescheduling package worked out with Mexico in 1986.

The current size of the developing countries' debt is described in chapter two. From the perspective of the banking system, the problem is concentrated in Latin America. Ten of the 15 developing countries that were identified by the U.S. Administration after it launched its new approach to Third World debt in Seoul in October 1985 are Latin American states. These include the four largest problem borrowers: Argentina, Brazil, Mexico and Venezuela.

The dimensions of the debt problems extend far beyond the concerns of commercial bankers. Many poorer developing countries, especially in sub-Saharan Africa, have debt repayment obligations that are, relatively speaking, more onerous than the worst cases in Latin America. Although the plight of these countries does not threaten the international financial system, because both in absolute and relative terms the involvement of the commercial banks in the debt of this region is rather limited, their debt repayment problems are nevertheless massive. Chapter two concludes that their situation represents a challenge for the international community that is particularly intractable.

Chapter three comments on the ramifications for Canada of this huge international debt: the effects on the commercial banks, the trade losses that Canada suffers directly and indirectly, and the concern that pressure resulting from the debt servicing burden is a factor endangering the vulnerable democracies of the Third World.

The next five chapters take the major players one by one and examine what their roles might be in the search for solutions to the debt problem. Actions and measures are suggested for the debtor countries, the international financial institutions, the Arab OPEC countries, the commercial banks and the creditor (OECD) governments including Canada. Chapter nine closes this survey with the Committee's broader conclusions on the management of the debt issue. The report includes in Appendix A a brief description of the organizational structure of each of the international financial institutions and of Canada's participation in them.

The debt problem is closely related to the macro-economic environment where sudden developments can have a major impact. Economic policy changes determined within the OECD as well as actions by developing countries exert a