noted only in passing that they would require separate and special treatment and suggested that they should benefit from the reflows to the earlier IMF Trust Fund. For these countries, at a much earlier stage of development, a quite different set of policies is required. But their needs cannot be ignored.

In summary, while the Committee found general support for the Baker initiative, it heard many doubts on two main points: first, whether the state of the world economy and the immediate prospects were conducive to the success of the Baker approach; and second, whether the amounts of net transfers of capital to the debtor countries envisaged by Secretary Baker were sufficient to ensure success.

Differing opinions were expressed by Committee witnesses as to whether the Baker initiative should be invoked for Mexico. There were those such as a Canadian banker who considered that Mexico's debts were so large and its economy in such poor shape that it did not offer a fitting launch for Secretary Baker's prescriptions. Some U.S. and Canadian bankers questioned whether the Mexican economy could achieve sustained growth in the medium term; this accordingly raised doubts as to whether the commercial banks would come forward with sufficient new lending. Others, such as Mr. Paul Volcker, Chairman of the Board of Governors of the U.S. Federal Reserve System, saw Mexico as a test case. Ultimately Mexico's financing requirements could not be ignored or postponed.

The 1986 Mexican Package

The package of arrangements negotiated by the Mexican government with the U.S. Treasury, the IMF and the World Bank and announced on July 22, 1986 was something of a surprise to the international financial community. Not only was it considerably larger in terms of resources to be made available than had been anticipated, and not only did it include some novel features such as the linking of the size of the loans to the performance of the Mexican economy, but some of the conditions called for from the Mexican government were less onerous than expected.

The significance of the arrangements negotiated with Mexico can best be assessed by comparing the elements of the agreed package with the expectations conveyed to the Committee during its visit to Washington and New York only a month and a half before the agreement was announced. In June the Committee was told by a number of witnesses in Washington that Mexico had demanded $9 billion of funds in aggregate, an amount termed "outlandish" by Mr. Horst Schulmann of the Institute of International Finance. It was predicted that the final settlement would be in the neighbourhood of $4 billion. Of this amount, the commercial banks would be asked to put up about $2.5 billion, the World Bank $1 billion and the IMF another $600 to $700 million. In addition, it was indicated that Mexico would have to agree to reduce its budgetary deficit from about 13.5 per cent of GNP to around 5 or 6 per cent.

A comparison of these figures with the July announcement of the negotiated arrangement indicates that Mexico was able to persuade the IFIs and the U.S. government to accept substantially better terms than they had earlier talked