

enough to enable the debtor countries to meet their obligations vis-à-vis their creditors while at the same time supporting sustained growth." They considered that by emphasizing commercial bank debt, the Baker initiative downplayed the situation of many other problem debtor countries where official debt is much more important. Finally, while the creditor governments were mentioned as participants in the proposal by the U.S. Treasury Secretary, there was no precise commitment or role suggested for these governments in the promotion of growth in the Third World debtor countries. This omission was also noted by commercial bankers.

A central feature of Secretary Baker's proposal was the major role ascribed to the World Bank, especially as a provider of structural adjustment lending as distinct from specific project lending. The impression has been conveyed that this represents an entirely new activity for the Bank. In fact, as this report notes in chapter five, the Bank has had a structural adjustment lending program since 1980, and had experimented with such loans even earlier. What was new in the Baker proposal was the relative importance ascribed to such lending in future, and the increased risks that this activity would entail for the Bank.

In the months following the elaboration of the Baker initiative, the adequacy of the targets set out in the proposal for resolving Third World debt problems was the subject of much debate. During the visit to Washington and New York, the opinion among many of the Committee's interlocutors was that the debts of Third World countries would be manageable under the approach proposed by Secretary Baker providing some or all of the following economic conditions prevailed:

- the OECD countries did not increase trade barriers;
- the world economy grew steadily year over year at a rate of at least 3 per cent, which should translate into a 4.5 per cent annual growth in world trade and 6 to 7 per cent growth in Third World countries;
- interest rates continued to decline, or at least remained at current levels;
- oil prices did not rise too sharply; and
- inflation in OECD countries remained at modest levels.

The Committee found it difficult to imagine that such favourable circumstances would prevail uninterruptedly during the next decade or so. While not invalidating the Baker initiative, the Committee considers that it is vulnerable to any deterioration in the state of the world economy.

A crucial assumption of the Baker initiative is that the debtor countries will be able and willing to make the necessary changes to their domestic economies. Mr. Robert Hormats raised this problem in New York. Contrasting the success of a number of Asian countries, less well endowed than the countries of Latin America, in developing responsive and outward-looking economies, he was doubtful that the South American countries could adjust sufficiently to take advantage of the opportunities that the Baker initiative offered. Moreover, he feared that their economies were overly dependent on commodity exports.

The U.S. Administration's proposals did not address squarely the problems of the poorer developing countries, mainly in sub-Saharan Africa. Secretary Baker