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STATEMENT OF THE CANADIAN DELEGATION
ITEM 84: EXTERNAL DEBT CRISIS AND DEVELOPMENT

delivered by Ms. Bethany Armstrong
Canadian Representative to the Second Committee
November 1, 1989

Mr. Chairman,

As has often been observed, the 1980s for many developing countries has been a decade of decline. According to the World Bank, some 54 countries - with a combined population of 800 million - experienced a drop in their per capita gross national product during the period 1980-88. Remarkably, however, 33 other developing countries - with a total population of 2.5 billion - experienced during the same time period an annual GNP per capita growth rate of 3 per cent. Clearly, profound differences in the economic performances of countries coping with similar circumstances in the external environment reflect broad differences in domestic economic, social and other development conditions. Clearly, too, the fact that some countries have fared either better or worse than others when faced with similar challenges in a difficult external environment indicates the crucial importance of domestic policies in achieving growth.

It is, in the first instance, the responsibility of national leaders to establish and/or strengthen national frameworks conducive to sustained growth and development. And it is the shared responsibility of developed countries to act in support of effective growth-oriented domestic policies of developing and other countries.

A common challenge facing many developing countries is excessive debt. High levels of indebtedness have become of themselves major obstacles to development. We are very conscious of the negative political and social impact which excessive levels of debt have had on developing countries. Unfortunately, the debt problems -- now in the seventh year -- are far from being behind us. Enormous challenges still lie ahead. It is important to establish the conditions which would be conducive to the reversal of the net outward flow of financial resources from developing countries. Debt service ratios remain high.

We are pleased to note, however, that there have been a number of positive developments during the past year. One notable feature of the debt situation has been a slowing down in the growth of the outstanding debt stock. This, together with a rapid expansion in export activity, resulted in an overall decline in the debt/export ratio for developing countries for the first time since 1982. The recognition this past year by creditor governments, international banks and international financial institutions of the need for debt and debt-service

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

to problems deriving from the upsurge of inflation rather than to shortage of foreign exchange for critical imports. Measures to reduce wide disparities in income distribution are desirable.

Structural adjustment policies hold the best prospect for eventual improvement in productivity and in better standards of living. However, account needs to be taken of the temporary negative impact which such measures have on the most vulnerable groups in society, including children and the poorest who increasingly and disproportionately are women. Governments in many developing countries have already taken the tough decisions necessary to engage in structural adjustment and they are pursuing these programs in the medium and long term interests of their countries. They have been and are courageous in opting for change despite the political and social difficulties in the short term. Continued determination will be essential for reform to succeed.

It is, of course, perfectly natural that countries pursuing appropriate adjustment policies should expect strong assistance from external sources. For its part, Canada has played an active role in support of strengthening the debt strategy. Canada welcomed the debt reduction proposal made by US Treasury Secretary Brady last March. Canada also very much welcomes the decisions taken by the IMF and the World Bank to direct a portion of their resources to provide support for debt and debt service reduction to countries undertaking sound medium-term adjustment programs. In addition, Canada and other industrial countries are committed to consider the removal of unnecessary tax, accounting and regulatory obstacles to debt reduction operations.

A more open global trading environment through improved multilateral cooperation is critical if growth is to be sustained. Reform of agricultural trade is particularly important and Canada firmly supports the need for progress in this vital field. Canada recognises the importance of reducing protectionism and creating a more open trading system on a world-wide basis. For this reason, it is impossible to overstate the importance of successfully completing next year the Uruguay Round of Multilateral Trade Negotiations which have passed the half-way mark and are now in the more detailed and critical stage. Besides agriculture, significant progress is needed in textile, services, the strengthening of GATT discipline, and in trade-related aspects of investment and intellectual property. Success in the Uruguay Round is essential if we are to oppose successfully the current unfortunate tendency toward unilateralism, bilateralism, sectoralism and managed trade which threatens to undermine the multilateral system.

Similarly, further progress is required in efforts to reduce the large external imbalances among developed countries. Progress to date has been too slow. Monetary policy is being asked to carry too much of the policy burden and has had the

unintended effect of raising the cost of borrowing by developing countries. In Canada high interest rates have been necessary to confront domestic imbalances that have threatened a resurgence of inflation. However, more of the policy burden by developed and developing countries clearly needs to be assumed by fiscal policy. Countries with large fiscal deficits need to implement effective fiscal consolidation measures. In Canada the government has made clear its commitment to a responsible mix of monetary and fiscal policies.

Of major concern to my delegation is the situation in the poorest countries, including that of sub-Saharan Africa, where the need for sound economic programs together with generous international support, is particularly evident. In many sub-Saharan African countries the debt crisis has been very prolonged and severe. The total debt in sub-Saharan Africa is far too high relative to export earnings. Mounting indebtedness has exposed in more sharp focus the underlying structural weaknesses in sub-Saharan economies and has amplified the need to implement structural adjustments designed to combat severe poverty and very low levels of productivity.

For the low-income countries an important development in the past year has been the implementation of the Toronto Summit guidelines to reduce their debt burden. Thirteen countries have so far benefitted from this "menu-based" plan which represents a relaxation of the rules governing earlier Paris Club re-schedulings. Canada has played an early and substantial lead in forgiving the official development assistance debts of many poorest countries. We are pleased to note that several other donor countries are now doing likewise or intend to do so. Aid to the least developed countries is a priority focus of Canada's development assistance program which a few years ago became an all-grant program and which, therefore, does not contribute to the debt burden of developing countries. Canada has also this past year coordinated and contributed substantially to an international financial support group effort on behalf of one country which had fallen behind in arrears to the multilateral financial institutions and which had decided to pursue adjustment policies to improve its circumstances.

Looking ahead to the 1990s, we have to ensure that the Bretton Woods institutions have adequate resources to meet likely demands. Canada and many other countries believe that a substantial increase is necessary in the Ninth Review of IMF Quotas. Similarly, Canada firmly supports a substantial and early replenishment of the World Bank's International Development Association (IDA). It is our hope that a replenishment of at least as large in real terms as IDA 8 can be achieved. Continued commitment by all donor countries to generous ODA support will be necessary to assist countries in pursuing growth-oriented policies. The growing problem of arrears at the Fund and other IFIs is a matter of concern and these institutions need to develop a cohesive and effective strategy

for dealing with the problems in a way which reflects the sometimes differing underlying policy direction and attitudes of the countries in arrears.

Mr Chairman,

The message which I have brought to our debate today is one of shared responsibility in confronting the enormous challenge of restoring confidence in countries with debt problems. The primary responsibility in doing so lies with the developing countries themselves and is grounded in the need to pursue sound economic policies. The pursuit of such policies needs the support of the international community. International cooperation--and particularly multilateral cooperation--is indispensable if we are to succeed. Policies undertaken by both debtors and creditors can only be effective if they work in tandem and build on their respective strengths and mutual interests.

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