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No. 67/14 **CANADA'S CONTRIBUTION TO ECONOMIC DEVELOPMENT  
IN THE LESS-DEVELOPED COUNTRIES**

Lecture by the Hon. Paul Martin, Secretary of State for External Affairs, in the First Series of the Jacob Blaustein Lectures, Columbia University, New York, April 28, 1967.

In my first lecture in this series, I attempted to show how Canada's policies in support of United Nations peace-keeping activities reflected the Canadian outlook on the world. In my second lecture, I discussed in some detail the position which Canada had adopted towards the most potentially dangerous, violent conflict in the world today, the war in Vietnam. For this third and last lecture, I am turning to a different aspect of the search for world peace -- namely, the task of international development, and Canada's distinctive contribution to it.

It is certainly an over-simplification to see in international development a means of eliminating all threats to peace. The principal antagonists in the two great wars of this century were and are among the most economically-advanced countries of the world; this provides convincing and tragic proof that the hunger for power cannot be satisfied by material well-being alone. But in this latter half of the twentieth century, it has become increasingly clear that a world community which is half rich and half poor cannot be stable or peaceful. His Holiness Pope Paul VI expressed this fact in a profound yet simple way when he said that "development is the new name for peace".

With the benefit of historical perspective, we can see that the origins of the present disparity in wealth among the world's peoples lie in the pattern of European economic and colonial expansion which took place in the eighteenth and nineteenth centuries. It was in Europe that the technological innovations which provided the key to our present-day economic prosperity in the Western world were first developed and applied. The resulting trade patterns, related as they were to the building of world-wide European empires, left the world with a set of economic relations manifestly unsuited to the aspirations and needs of a world which has come to recognize the dignity and right to equal opportunity of all peoples.

Canada, like the United States, is itself a product of European colonial expansion. As a country of European settlement, however, our

peoples brought with them the skills and aptitudes, and the psychological make-up, which enabled them to share from an early stage the rapid technological and economic development which had begun in Europe. But the effort to build a new nation in North America has also, I think, given us some insight into the problems facing those nations in other parts of the world which have recently attained independence, and have simultaneously embarked with determination on the path of economic and technological development.

In earlier days, the needs of other countries for outside assistance in achieving economic development would have gone largely unnoticed and unheeded. Indeed, it is only in relatively recent times that the conception of collective, governmental action to provide basic social services and stimulate economic development within our own borders has been recognized. From an historical point of view, we may regard the Second World War as the turning-point, which led to the realization, still unfortunately not fully accepted in all quarters, that responsibility for human welfare cannot be limited by political boundaries. During the war, thousands of Canadians fought and died not only for the freedom of their own country but also for the freedom of our allies and for the beliefs which we shared with them. It was only natural that the sense of common purpose which characterized our war effort should be expressed anew in the task of reconstruction, an essentially economic task which required the contribution of material resources from the countries which had suffered least to those which had suffered most.

Amidst the revolutionary changes which took place in the world in the years following 1945, it was borne home to us that the countries which had been devastated by war were not the only ones where people were suffering from poverty and deprivation. First the great nations of Asia, proud heirs to ancient civilizations, and then the peoples of Africa raised their voices, demanding the same freedom and independence that the victorious allies had fought for in the Second World War. Initially, this great revolutionary movement was expressed in essentially political terms, but it soon became clear that the quest for political independence was only the first stage in a much more basic search for a better and more fully satisfying life.

In 1950, Canada met with Britain, Australia, New Zealand, India, Pakistan and Ceylon to discuss ways of meeting the political, economic and social problems that faced the newly independent Commonwealth countries of South and Southeast Asia. The result was the Colombo Plan, originally conceived as a Commonwealth response to what was regarded as a Commonwealth responsibility. To Canadians, the "new" Commonwealth which emerged in the years following the war was a source of some pride, for it was Canada which had originally pioneered the pattern of national independence within the Commonwealth. Canada was anxious to do what it could to make this "new" Commonwealth, embracing non-European as well as European peoples, a viable conception, and accordingly undertook to assist in the joint development effort which was so clearly needed. It is from that time that we can trace the growth of Canada's programme of aid to the developing countries.

For the eight years following its inception, the Colombo Plan was Canada's only bilateral aid programme, and to it the Canadian Parliament appropriated annually the sum of \$25 million. Despite the addition of other areas of the world to the Canadian assistance effort, the Colombo Plan region continues to receive the bulk of Canadian aid funds. Between 1950 and March of this year, bilateral assistance provided to the area totalled \$800 million, of which an overwhelming proportion went to India and Pakistan. In this respect, Canadian allocations followed proportionately similar lines to those of the United States, Britain and West Germany. I am frequently asked by Canadians why such a large proportion of our funds are allocated to the Indian subcontinent. It is important to remember, when making comparisons of this nature, that India and Pakistan contain more people than the continents of Africa and Latin America put together. In the last 15 years, aid to India from all sources and of all types has amounted to little more than \$20 a person, but this low per capita figure nevertheless represents the staggering aggregate investment of \$9 billion.

The character of our aid to India and Pakistan has been one of heavy emphasis on power infrastructure projects, which often benefit agriculture as well, plus an increasing amount of grant aid food. Our food aid programme to India alone in 1966 was \$75 million in grants, a contribution which moved us ahead of the United States as a supplier on a comparative basis either of population or gross national product. The needs of India continue to be immense, and sometimes, when we look at the gloomy picture drawn by statistics of increasing population and food supplies diminished by drought, we may be tempted to despair. We should not forget, however, that India has put together in the last 15 years the important beginnings of a modern industrial structure, and has an expanded force of trained and educated manpower. Together with its potentially rich resources of land and water, India has a far better base for economic progress than existed 15 years ago. Much the same can be said with respect to Pakistan.

I want to deal at a later stage with our multilateral relations, but no discussion of Colombo Plan aid would be complete without a reference to the confidence we have in the future of the Asian Development Bank, at the inauguration of which, last year, Canada pledged an initial capital contribution of \$25 million. From its resources, we hope, will come great undertakings similar in scope and imagination to the Mekong development project (sponsored by the Economic Commission for Asia and the Far East), which serves Thailand, Laos, Cambodia and Vietnam, and which awaits only the resolution of the area's political differences to take a great step forward.

In 1958, Canada decided to broaden the scope of its contribution to international development by undertaking a new programme of assistance for the islands of the British West Indies. Canadians had long felt a special sense of attachment to the West Indies, based among other things on the traditional trade in salt fish from the Maritime Provinces for West Indian sugar and rum. The establishment in the West Indies of a federation embracing the various islands, and the prospect of this federation becoming a second independent Commonwealth nation in the Western Hemisphere, gave added impetus to Canadian interest in the region. Initially, Canada's

economic assistance was concentrated on the provision of infrastructure which would make the federation more viable, and took the form, among other things, of two cargo-passenger vessels for inter-island service.

The collapse of the West Indies Federation in 1962 ended, at least for the moment, the dream of a single united Commonwealth nation in the Caribbean, but it did not end Canadian interest in assisting the various West Indian territories in overcoming the problems of development which confront them. Indeed, with the attainment of independence by Jamaica and Trinidad and Tobago, and later by Guyana and Barbados, Canadian interest in strengthening and giving new meaning to its special relation with the area has intensified. This was the background for the important conference held in Ottawa in July 1966 and attended by the Prime Minister and chief ministers of all the Commonwealth Caribbean countries, at which various avenues of collaboration in achieving development were explored. At that conference, Canada made it clear that the Commonwealth Caribbean would be considered an area of concentration in the Canadian aid programme. Even before the conference, the Commonwealth Caribbean was receiving more assistance from Canada, on a per capita basis, than any other part of the world.

Africa, a continent with which Canada had only the most tenuous relations in pre-war years, was the third area to come within the ambit of our aid programme. You will recall the great upsurge of independence which characterized the African scene in the years following 1957. Many of the newly-independent states had been British dependencies, and became members of the Commonwealth; others were formerly colonies of France and Belgium, and became heirs to the French language and culture. Thus it is in Africa that expression can be given in our aid programmes to Canada's own dual heritage.

Canadian assistance to Africa began in 1960, with an allocation for the Commonwealth African countries. In 1961 this was followed by the inauguration of a programme for the "Francophone" countries. Throughout Africa the most immediate need was for educational and technical assistance, and it was in these fields that we originally concentrated most of our attention. Recently, however, increasing emphasis has been placed on the need for capital projects, particularly for pre-investment and feasibility surveys, to enable the countries of Africa to make better use of their rich natural resources. From modest beginnings, our programmes for both Commonwealth and Francophone Africa have grown rapidly, as we have gained a greater understanding of Africa's needs and how they can be effectively met.

We were heavily involved in Asia, had undertaken a significant programme in the Commonwealth Caribbean, and faced a growing need in Africa, but could we afford to ignore the circumstances of Latin America? This was a difficult question. On the one hand, there was no doubt at all in our minds that the requirements of Latin America deserved the attention of the industrialized world. We had extensive diplomatic and commercial ties, and the sympathy that must come from our common membership in the American family. On the other hand, we lacked facility in

the two major languages of the region, and we ran the risk of spreading our programme too thinly among the developing areas of the world. The decision, taken in 1964, was to allocate \$10 million from our newly-created development loan fund to Latin America for projects which would be submitted for our approval through the Inter-American Development Bank. The fund has grown by annual instalments and, by the end of this year, we shall have made loans for several major development projects in a number of Central and South American countries.

In addition to our programme of bilateral assistance, Canada has participated actively from the beginning in the great international institutions that have grown up around the United Nations, drawing their strength from its universal approach. In 1966, Canada ranked fourth among the contributors to the United Nations Development Programme and the International Development Association, third in contributions to the United Nations Relief and Works Agency, and second in contributions to the World Food Programme.

Above all, we value the association we have established with the World Bank, which has become the repository of so much invaluable information and knowledge about the science of development assistance. The Bank, and its offspring, the International Development Association, are playing a major role in international development. As a member of the World Bank consortia for India, Pakistan, and the Indus Basin Development Fund, and of the consultative groups for Colombia, Malaysia, Nigeria, Thailand and Tunisia, we are convinced of the merit of this orderly approach to a nation's development requirements, and we look for the formation of more of these groups. We have been favourably impressed by the reports drawn up by the Bank, by the International Monetary Fund, and by the promise of more detailed planning conveyed by the terms of reference of the United Nations Development Programme, all of which help us to determine the most effective ways of allocating funds under our bilateral programmes.

Like other countries which have undertaken programmes of development assistance, Canada has found the Development Assistance Committee of the Organization for Economic Co-operation and Development particularly useful as a means of co-ordinating our common effort. The Development Assistance Committee was created in 1960, precisely to counter some of those old arguments about unco-ordinated bilateral aid, and to provide a meeting place where donors could exchange confidences. The initial concern of the Development Assistance Committee was with the equitable sharing of the responsibility for providing assistance, and for this purpose it undertook to establish statistical measurements of the flow of resources to countries in the course of economic development.

The Development Assistance Committee, under its first-rate chairman, Mr. Willard Thorp, has performed its task well, both in the area of burden-sharing and statistical analysis, as well as in the stimulation of increased volume and the promotion of more reasonable terms of aid. I make no criticism of its past endeavours, however, when I say that a new impetus is required from this forum, in which most of the Western donors, Australia, and Japan are represented. The Development

Assistance Committee has known, as have the World Bank and the United Nations, that our joint efforts are faltering. The encouraging increases in the expansion of aid that took place before 1961 have not been repeated, and the terms on which assistance is extended are hardening, building repayment problems for the future. It may well be time for the Development Assistance Committee to speak to its members a little more firmly, and to exercise the moral suasion its unique position commands.

We have the assurance of the World Bank that the developing countries could make effective use of at least another \$4 to \$5 billion annually than they are now receiving. This means that the Bank has judged the problems of disbursement and absorption as not insurmountable, and indicates an encouraging view of the possibility of speeding up the timetable of development. I do not know if this volume can be attained in the short run. Taking the practical view, I find it hard to believe that we can collectively achieve a 35 percent increase in all forms of aid within, say, the next five years; but, drawing upon the experience of war, I am not unconscious of the fact that amazing results can be obtained from single-mindedness of purpose.

But, of equal importance, can we provide this aid on terms which will be of long-term assistance to the developing world? It is a sobering fact that the developing countries pay out between them \$3.5 billion a year for servicing their external public debt and twice that sum when private commitments are included. The poorest among them, a former World Bank official has estimated, are now repaying more in interest and principal on World Bank loans than they are receiving in disbursements from the Bank. If we increase the amount of capital available without considering the impact of our terms on the developing countries, we could be compounding current difficulties and postponing indefinitely the creation of conditions of self-sustaining economic growth.

In planning for Canada's programme of development assistance, we have been deeply conscious of the need for more aid, and for aid on better terms. At the present time, Canadian aid in all forms amounts to approximately \$300 million a year, which is about three-fifths of one per cent of our gross national product. In a period when the level of assistance to the developing countries has been tending to remain static, Canada has taken the decision to expand its contribution to international development to an amount approximately equal to one per cent of its gross national product by the early 1970s.

The terms of Canadian aid have always been relatively favourable. In the beginning, almost all our aid was in the form of grants, and grant aid continues to make up a substantial proportion of our total allocations. When the level of aid was expanded and it was decided to make aid available in loan form, the terms were based on those offered by the International Development Association -- that is, no interest, ten years grace, and repayment over a further period of 40 years. Last year, even the three-quarters of one per cent service charge on this type of assistance was eliminated. We recognized, however, that some developing countries would usefully handle loans with somewhat higher repayment obligations and, to meet this particular need, a type of loan carrying interest at three per cent, with seven years grace and 30 years maturity, was introduced.

The third type of loan available, of course, is that issued under the terms of Canada's Export Credits Insurance Act. These are extended on a commercial basis but qualify as development assistance because their terms are softer than those which could be extended directly by Canadian exporters. We include these loans in our aid programme figures because they form part of the internationally-accepted measure of flow, while accepting the argument that they are designed primarily to serve the Canadian exporter. At one time, export credits represented almost one-third of the entire programme, but in the year just past they accounted for only one-sixth, and the proportion is expected to grow smaller each year.

Canada maintains the policy of insisting that its aid be given in the form of Canadian goods and services, of tying our aid funds, in other words, to procurement in Canada. We do this of economic necessity, rather than by conviction, because our sympathies lie with the terms of the recommendation adopted by the Development Assistance Committee in July 1965, which said, in part:

"(Tying of aid) can bring about cumbersome limitations on the freedom of the recipient to choose freely the most suitable sources of supply on the international market. With regard to bilateral assistance, member countries should jointly and individually endeavour, unless inhibited by serious balance-of-payments problems, to reduce progressively the scope of aid-tying, with a view ultimately to removing procurement restrictions to the maximum amount possible."

A significant proportion of Canadian aid is channelled through the multilateral agencies and is, of course, already untied. In respect of our bilateral aid we are willing, indeed anxious, to move from our position in concert with our fellow donors, particularly those whose economic influence in the world is so much greater than that of Canada. To be realistic, I cannot visualize early international agreement on this question, considering the disparate nature of aid programmes and donor economies. I am, however, hopeful that it will be possible to arrive at a formula which would permit gradual movement towards the objective.

In the meantime, we have done our best to mitigate the possible adverse effects of tying aid. Procedures have been adopted to ensure that there will be competitive bidding by our exporters, and we make available a sufficiently broad range of goods and services to enable the recipient country to avoid those with a relative price disadvantage. Perhaps I may observe, at this time, that, as the result of aid associations extending over a period of 15 years, the kind of request made to us today is usually for the kind of service or material that we offer on a world-wide competitive basis of price and quality. Another step we have taken is to reduce the emphasis formerly placed on financing only the foreign-exchange component of a project. In the Caribbean area, in particular, we have indicated our willingness to assume a proportion of local costs where this is necessary to ensure the completion of a high-priority project.

We have also recognized the need for what is called programme or non-project aid. The very pace of development exerts a pressure on such countries as India and Pakistan to use more and more foreign exchange to feed the increasing demands of a growing industrial economy. To meet this need for raw material and spare parts, we have developed a large-scale commodity programme, primarily for the larger Asian countries, and have adopted procedures that enable users to enter into direct relations with Canadian suppliers.

From what I have already said, it will, I think, be clear that Canada's programmes of development assistance represent a significant contribution to the international effort to build a more peaceful and stable world community, capable of meeting successfully the problems of social change and economic development that characterize our times. Aid is, of course, only one of the ways in which the developed countries can contribute to the process of international development. As a result of the work of the United Nations Conference on Trade and Development, we have begun to obtain a clearer understanding of the role which trade can and must play in this process. Unless the trading opportunities of the developing countries are significantly improved, it may well prove impossible for them ever to attain self-sustaining growth.

For many of the developing countries, the export of basic commodities accounts for a large proportion of total earnings from trade, and it is, therefore, a matter of urgency to stabilize and improve their earnings from these commodity exports. This can only be done effectively through international commodity agreements, and Canada has been participating actively in the negotiations which are taking place with respect to several commodities. There is need also to open up larger markets for the products of the industries which the developing countries are establishing. While understandably concerned about the possibility of market disruption, Canada has a relatively good record in providing a market for manufactured goods from the developing countries. We are very hopeful that the tariff negotiations currently being concluded in Geneva (the "Kennedy round") will result in a more rational and efficient international division of labour, and thus be of particular benefit to the developing countries as well as to the international community in general.

Because of the increasing realization that trade relations are of great importance in international development, and the failure of aid programmes to have the full impact that had at one time been expected, there are those who argue that trade, not aid, is the real answer to the problem of under-development. This is, I believe, an over-simplification of the issue, for the provision of capital assistance and manpower training under development-assistance programmes, and the provision of wider market opportunities for the products of the developing countries, are really two sides to the same coin of international development. With the experience gained over the past two decades, Canada, like the other countries which have undertaken programmes of development assistance, has come to realize that the task of international development is much more complex, and more formidable, than was once thought. We have realized that a long-term effort will be required, and, with specific reference



to our aid programmes, that more sophisticated and comprehensive administrative arrangements, and more clarity and precision with respect to objectives, will be necessary.

The purpose of aid, as we see it, is clearly and simply to help the less-developed countries of the world achieve a degree of economic development which accords with the needs and aspirations of their peoples. Unfortunately, this basic, central objective has all too often been obscured and distorted by conflicting considerations. If genuine international development is to take place on the scale desired, and with the necessarily limited resources available, it is essential that the goal of economic development be kept at the forefront of our thinking, and that other goals be discarded, or at least placed in a subordinate position.

There is, for example, a tendency in some quarters to regard aid as a means of exerting political influence. Given the conflict of ideologies which is such an important feature of the international scene, this tendency is perhaps understandable. Certainly, we should hope that the attainment of economic development would encourage the less-developed countries to evolve systems of government consonant with our own ideals of liberty, an open society, and respect for the rule of law. It should be noted, too, that a certain degree of confidence and understanding must exist between donor and recipient governments, if only to make possible the administrative arrangements necessary for the successful operation of an aid programme. But it is, I think, a grave error to view aid as a means of gaining immediate political objectives, or of buying friends. Experience has clearly shown that such a view may not only lead to disappointment but can result also in the waste of scarce resources and a failure to achieve any sort of meaningful economic result.

Another goal which is sometimes claimed for aid programmes, and which I think is also of doubtful validity, is the attainment of immediate commercial benefit for the donor country. Economic progress in the developing countries will, in the long run, result in expanding trade opportunities on a global scale, but aid programmes which have as their principal purpose the stimulation of production in the donor country are not likely to be very relevant to the economic needs of the less-developed countries. The drive and know-how of businessmen in our free-enterprise economies must, of course, be utilized in the implementation of aid projects, but to confuse aid programmes with the promotion of exports, in itself a perfectly legitimate and necessary field of government action, is to run the risk of failing to achieve the objectives of either.

There is also, I think, a risk involved in regarding aid as charity, or as some kind of massive international relief effort. Special emergency measures must, of course, be taken from time to time on an international scale for the relief of human suffering, and such measures often tend to find their way into aid programmes. It would be morally and humanly wrong not to provide assistance when the alternatives are sickness, starvation, and death. But such measures, if they are allowed to become the foundation of an aid programme, may well make it more difficult to achieve effective and lasting economic progress in the

long run. Certainly, a spirit of humanitarianism is an important motive for the provision of aid, but there is, I think, a danger that overemphasis on charitable and humanitarian motives may lead us to underestimate the need for sound policies and effective, practical administrative arrangements if development is to be successfully achieved.

If the goal of economic development must be accorded the dominant position in the thinking of the developed countries with respect to aid programmes, it is equally important that the developing countries themselves evolve policies clearly aimed at this goal. While shortage of investment capital and skilled manpower are two of the principal obstacles to development, and can be at least partially overcome through international development-assistance programmes, there are other obstacles to development which only the developing countries themselves are in a position to tackle effectively. One of these is, of course, the rapid rate of population growth which characterizes so many developing countries, and has reduced the effectiveness, in per capita terms, of so much of the development that has taken place in recent years. Another factor which may inhibit growth in some developing countries is small size, which, of course, results in a small market and loss of the advantages which may be gained from economies of scale. One response to this problem is regional economic, and perhaps even political, integration. It is encouraging to note that increasing numbers of developing countries are seriously examining the possibilities of integration and other forms of co-operation to achieve economies of scale.

In allocating their aid, donor countries are certainly obliged to look for some evidence of performance on the part of the recipients, but I think we must recognize, at the same time, that governments in the developing countries are no freer from day to day pressures than governments in developed countries, and are often less well-equipped to cope with them. As one commentator recently noted, a developing country is faced with the necessity of balancing orderly growth against the disorderly demands of the present. When we recall that almost all developing countries are simultaneously undergoing rapid social change, and are engaged in evolving their own national personalities, it is clear that the criteria which donor countries must apply to ensure effective use of the resources they are contributing need to be tempered by an understanding of, and sympathy for, the particular problems faced by individual developing countries.

Development is not a simple mechanical process, and does not take place in a vacuum; it is influenced and shaped by a great many factors, among the most important of which are those associated with the culture and traditions of the countries concerned. Statistics on economic growth, although important, are not the sole indication of a successful development effort, for a developing country can hardly be expected to pursue economic growth to the exclusion of other goals which it may regard as important, such as a balanced distribution of wealth, and respect for its cultural heritage.

What this means, of course, is that genuine development is an endogenous process; while it can be assisted from without, it must be produced from within. In the final analysis, the quest for development

involves not only higher standards of material well-being but also the sense of responsibility and self-reliance that can come only from the successful achievement of a common goal by means of one's own efforts. The role of aid is to make this task easier and less costly in terms of social and human values, but aid can never be more than a supplementary factor in the overall process of development. Unfortunately, aid may have a tendency to enhance the cultural influence of the developed countries within the developing world, at a time when the most profound problems of the developing countries involve the need to break with this influence, at least to some extent. To recognize this is not to question the value or necessity of aid programmes; it is rather to point out some of the pitfalls, and to underline the need for true generosity of spirit, as well as generosity of purpose, in approaching the task of international development.

In this lecture, I have attempted to outline Canada's approach to international development, and how the form and direction which Canadian aid programmes have taken reflect Canada's own make-up and economic capabilities, as well as its outlook on the world. To conclude both this lecture and the series, I can think of no more fitting words than those of Pope Paul VI in his recent encyclical - words which can, I believe, serve as an inspiration to us all:

"Excessive economic, social and cultural inequalities among peoples arouse tensions and conflicts, and are a danger to peace.... To wage war on misery and to struggle against injustice is to promote, along with improved conditions, the human and spiritual progress of all men, and therefore the common good of humanity. Peace cannot be limited to a mere absence of war, the result of an ever-precarious balance of forces. No, peace is something that is built up day after day, in the pursuit of an order intended by God, which implies a more perfect form of justice among men."