

# Statement

Secretary of  
State for  
External Affairs



# Déclaration

Secrétaire d'État  
aux Affaires  
extérieures

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AS DELIVERED

**AN ADDRESS BY**

**THE HONOURABLE BARBARA McDOUGALL,  
SECRETARY OF STATE FOR EXTERNAL AFFAIRS,**

**TO THE**

**INTERNATIONAL DEBT SEMINAR  
ORGANIZED BY EXTERNAL AFFAIRS AND  
INTERNATIONAL TRADE CANADA**

**OTTAWA, Ontario  
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Affaires extérieures et  
Commerce extérieur Canada

External Affairs and  
International Trade Canada

Canada

I want to welcome all of you to Ottawa for this special seminar on international debt and development.

The task before you is complex. These are issues that must not be measured only in dollars or Deutschmarks or pesos; instead, they must be measured in the hopes and prospects for millions of people around the world.

Debt is not the cause of under-development. People, governments and businesses borrow money to invest in their future, to develop and build their dreams. Borrowed money, invested wisely, can bring real benefits.

For their part, creditors lend money to finance exports and to support development projects to stimulate economic activity.

A loan is therefore much more than a financial transaction. It is intended to be a win-win contract based upon trust and confidence between individuals, businesses and countries.

We must not lose sight of these underlying relationships as we seek to assess the relationship between debt and development.

The so-called debt crisis erupted in the early 1980s when it became clear that too much easy money had been lent and borrowed, when growth did not measure up to sometimes unrealistic expectations and the costs of servicing the debt exceeded the capacity to pay. There was a threat to the international financial system and to the economies of the debtors.

As many of you know, Canada has been both generous and innovative in its efforts to bring relief to debtor nations to help restore the balance in mutual benefits.

To date, we have forgiven over \$1.2 billion in Official Development Assistance (ODA) loans since 1978. This places Canada at the forefront of Organization for Economic Co-operation and Development (OECD) countries.

We have been instrumental in generating consensus on the so-called "Toronto terms" in 1988, and in the recently agreed-upon "Trinidad terms," which provide debt relief for the poorest.

We are prepared to go even further for the poorest countries -- as high as 75 per cent or 80 per cent -- where it can be shown that such terms are warranted. We played a key role in establishing the Enhanced Structural Adjustment Facility (ESAF) at the International Monetary Fund (IMF) to support adjustment in debt-distressed low income countries and in creating the World Bank's Special Program for Africa.

I should add that our faith in the system is also based on past experience. Canada has not hesitated to provide aid to countries who found themselves in difficult circumstances, countries like Guyana, Jamaica and Zambia. We led the Guyana Support Group, the

first co-ordinated effort to help a country clear its arrears to the IMF and World Bank.

Throughout the developing world there are good signs that the international debt strategy is working. For example, the debt-to-GNP ratio of developing countries declined from 52 per cent in 1987 to 38 per cent in 1991. Perhaps more important, the debt service ratio has declined by one-third, from 30 per cent in 1986 to 20 per cent in 1991.

These improvements allow debtor governments greater flexibility in adjusting other domestic social and economic programs to ensure continuing progress toward sustainable development.

We cannot treat debt in isolation. It is linked to a country's overall performance, including its relationship with its natural environment. We can be proud that at the U.N. Conference on the Environment and Development, the Prime Minister proposed ODA debt-for-environment conversions of up to \$145 million for Latin American countries which will reduce the debt burden while supporting domestic environmental programs.

The conversions will be negotiated individually, taking other factors into account including the promotion of human rights and democracy, and the implementation of sound economic policies.

This initiative is only one of the new elements in the global debt strategy. Another is the aforementioned Trinidad terms, an agreement which will provide up to a 50 per cent reduction in payments (principal and interest) on Paris Club claims for the world's poorest countries. This should have a particular impact on many African countries who find themselves in this category.

Most important, countries who are eligible for Trinidad terms could be eligible for a reduction in their entire stock of debt after a period of sustained adjustment, usually three or four years.

This is a very positive incentive and shows that there is a bright light at the end of what for some has been a very long tunnel.

It is interesting to note that in Africa, for the 20 core countries of the World Bank's Special Program for Assistance (SPA), the annual GDP growth rate in the period 1988 to 1990 rose to four per cent from an average of one per cent annual growth in the period 1980 to 1984. Their debt has stabilized, while unfortunately the debt of those countries not undertaking adjustment programs has continued to rise.

For middle income countries, the Brady Plan has provided a mechanism for debt reduction by commercial banks. Five countries, soon to be joined by Brazil and Argentina, have

benefitted so far. Canada contributed \$5 million to Costa Rica's debt buy-back scheme.

Trinidad terms as they currently stand will cost Canada about \$100 million. This is a cost we have agreed to bear. If we were to reduce the amounts owed by the poorest countries by 100 per cent, the cost would be in the area of \$250 million. We have said that we are prepared to move in this direction for countries who need more relief.

As for lower-middle income countries, debt reduction would have much larger costs, up to \$1 billion depending on the percentage of reduction and the countries concerned. That is why, in international discussions on this issue, we have stressed that any reduction for these countries must be gauged on the basis of real need.

All debt reduction has cost associated with it. Forgiving the official debt of all the developing countries with potential debt-servicing problems would cost Canadian taxpayers well over \$5 billion. This is far beyond what we can afford to do.

The experience of the past 10 years has confirmed that the key ingredient in overcoming problems of debt and in attracting much-needed capital and financing for economic development is the disciplined implementation of stable macroeconomic and structural reforms.

Experience has shown that a short-term approach to the debt problem does not work. The orthodox programs advocated in the early 1980s are now out of favour, in part because they paid too little attention to social factors.

In their place we see an approach to structural adjustment that promotes growth while ensuring a more equitable distribution of the benefits. It has shown real success for countries that have maintained their commitment to reform.

The global figures for developing countries are impressive: 4.1 per cent growth in the period 1986 to 1990 for those who met their IMF-approved targets, as opposed to 1.4 per cent growth for those countries who did not.

Canada has been a long-time proponent of a multifaceted approach to development. There is no single cause of under-development, nor a simple solution. Social, economic, political and environmental factors are all involved.

In a Foreign Policy Framework statement that I made last December and in a lecture that I gave at McGill University in March, I laid out Canada's policy on the relationship between human rights, the development of democracy, and good governance in a particular country and our assistance to that country. Prime Minister Mulroney, who took the lead in making this linkage at

the Commonwealth Heads of Government meeting in Harare last fall, has been equally strong in his statements in this regard.

Those statements have been implemented. We have taken strong positions at recent meetings that we have held with countries such as Bangladesh, Sri Lanka and Kenya, and the actions we have taken on countries such as Indonesia, Haiti and Peru confirm the seriousness of our policy and our intentions.

This is not intended to be a "holier than thou" position. But it is intended to reflect the values and opinions of ordinary Canadians who want their public funds to be spent where they can do the greatest good.

Canadians are a generous people. But, like other countries, we too are undergoing major structural changes as we adapt ourselves to the new realities of a rapidly shrinking world. We know that our future is based on strong and open relationships with other countries, whether through co-operation in trade or assistance, or through regional or global security arrangements.

We do not separate these objectives into tidy little boxes. We know that they are interrelated.

Democracy and respect for individual rights are prerequisites for sound and functioning economic markets and social institutions. These elements, in turn, are essential for peace and stability.

Inordinate defence expenditures by a repressive regime abroad create pressures for new defence expenditures by their neighbours and for us at home. Pollution and environmental degradation elsewhere create new threats to our own environmental well-being.

Canadians also want countries to live up to their international commitments. As developing countries are integrated into the international community, Canadians expect them to assume greater responsibilities. The developed world must not send mixed messages; if we are too soft on debt it will be more difficult to be tough on human rights.

On balance, Canadians have been supportive of our initiatives. But a majority of Canadians are against the outright forgiveness of loans. That is why we have attempted to be both innovative and flexible, not only to the very poor countries, but also to the more developed countries who are experiencing temporary difficulties. Better terms, longer repayment periods, debt reduction, new ways to convert debt into socially responsible activities -- these are all part of our policy options.

But we also realize that we cannot act alone. Any actions must be taken multilaterally if we are to produce real and long-standing change. If Canada were to act alone, our actions would be but a nudge in the right direction. The problems facing the

world today require much more than hints and nudges. They require clear and concerted action by all parties to a debt.

That is why you are here today and tomorrow: to cut through all the bilateral and multilateral hand signals and body language and to look at ways to address one of the world's most serious issues.

If I may make one suggestion, let me suggest that you take a look at some of the "success stories."

There are certain developing countries like Botswana, Mauritius, Thailand and Malaysia who have avoided large debts while achieving strong economic growth and social progress. Other countries such as India, Bangladesh, Colombia and Zimbabwe continue to meet their obligations while recording significant economic and social progress -- uneven, perhaps, but demonstrable progress nonetheless.

Other poor countries such as Senegal, Yemen, Togo and Guinea are achieving more manageable debt service ratios. Countries such as Costa Rica, Chile, the Philippines, Congo and Morocco have achieved dramatic reductions in their debt burdens in short time periods.

Many Canadians who have become inured to the problems of the Third World would be pleasantly surprised to learn of these successes. I know that there are many other examples, as well, and we should look for the common elements that lead to success in overcoming debt problems and promoting growth and development.

Undoubtedly the formula for success goes far beyond bankers' balance sheets. It will encompass the whole range of social, economic, political and environmental conditions that support sustainable development while respecting individual rights and freedoms.

We can think of international debt as a looking glass, one that reflects back our own view of the world, our own hopes and aspirations. Or we can tilt the mirror in such a way that we gain a new perspective of others without distorting the view of ourselves. Policies to promote Canadian values in development programs must be balanced by appreciation of the differences between cultures and peoples.

You have a difficult assignment before you today and tomorrow: to achieve focus without exclusion and perspective without distortion.

I wish you well in your deliberations and I look forward to your conclusions and suggestions.