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STATEMENT BY H.E. AMBASSADOR DE MONTIGNY MARCHAND
CANADIAN REPRESENTATIVE TO THE
THIRTY-SIXTH TRADE AND DEVELOPMENT BOARD (FIRST SESSION)
ON

ITEM 3: INTERDEPENDENCE OF PROBLEMS OF TRADE, DEVELOPMENT FINANCE
AND THE INTERNATIONAL MONETARY SYSTEM, AND

ITEM 4: DEBT AND DEVELOPMENT PROBLEMS OF DEVELOPING COUNTRIES

THANK YOU MR. PRESIDENT. ALLOW ME TO BEGIN BY PRESENTING TO YOU AND TO THE OTHER MEMBERS OF THE BUREAU, MY DELEGATION'S CONGRATULATIONS ON YOUR ELECTION. NO DOUBT YOUR COLLECTIVE EFFORTS WILL ENSURE EFFICIENT CONDUCT OF OUR DELIBERATIONS AND A POSITIVE, USEFUL OUTCOME.

MR. PRESIDENT, THE PAST YEAR HAS SEEN A REMARKABLE EVOLUTION IN THE THINKING OF POLICY MAKERS IN A WIDE VARIETY OF COUNTRIES, REGARDING NATIONAL ECONOMIC DEVELOPMENT AND INTERNATIONAL ECONOMIC COOPERATION. FROM MEXICO CITY TO WARSAW TO ACCRA TO MANILA, GOVERNMENTS ARE RETHINKING AND RESTRUCTURING THE RESPECTIVE ROLES OF THE STATE AND THE PRIVATE SECTOR IN THE PROMOTION AND ACHIEVEMENT OF ECONOMIC AND SOCIAL PROGRESS. THE PRECISE NATURE AND PACE OF THE CHANGES VARY FROM COUNTRY TO COUNTRY, AND IN MANY THESE CHANGES ARE NOT ALL NEW. BUT THE COMMON THREAD IN THESE PROGRAMMES IS THE RECOGNITION THAT NATIONAL WEALTH AND WELL-BEING DEPEND ON THE PRODUCTIVE EFFORTS OF INDIVIDUALS AND ENTERPRISES. AN ECONOMIC CLIMATE WHICH PROVIDES INCENTIVES TO WORK, TO SAVE, AND TO INVEST, IS NOW COMMONLY ACCEPTED AS THE SINE QUA NON OF ECONOMIC DEVELOPMENT.

THE CANADIAN GOVERNMENT IS TREMENDOUSLY ENCOURAGED BY THIS EVOLUTION, BECAUSE CANADA'S OWN PROSPERITY CAN ONLY INCREASE AS STEADY ECONOMIC GROWTH TAKES HOLD IN OTHER COUNTRIES. WE ALSO RECOGNISE THAT SUSTAINED ECONOMIC DEVELOPMENT PROVIDES THE SUREST FOUNDATION FOR DEMOCRATIC INSTITUTIONS AND SOCIAL PROGRESS.

IT IS THUS IMPORTANT THAT DEVELOPING COUNTRIES CONTINUE AND INTENSIFY THEIR EFFORTS TO DESIGN AND IMPLEMENT MARKET-ORIENTED REFORMS IN THEIR ECONOMIES. AND, IT IS EQUALLY IMPORTANT THAT THE DEVELOPED COUNTRIES SUPPORT THEIR EFFORTS IN EVERY WAY THEY CAN. I WOULD LIKE TO SAY A FEW WORDS ABOUT THE RESPONSIBILITIES OF EACH IN THIS REGARD.

BEFORE DOING SO, HOWEVER, I WOULD LIKE TO SAY HOW PLEASED MY DELEGATION IS BY THE STEADY IMPROVEMENT IN THE TRADE AND DEVELOPMENT REPORTS OF THE PAST FEW YEARS, OF WHICH THIS YEAR'S



SUSTAINED GROWTH IN OECD COUNTRIES IS IMPORTANT, BUT ITS TRANSMISSION TO DEVELOPING COUNTRIES IS NOT AUTOMATIC. THUS ANOTHER SIGNIFICANT CONTRIBUTION WHICH THE DEVELOPED ECONOMIES CAN MAKE IS TO ENSURE THAT THEIR ECONOMIES REMAIN OPEN TO THE EXPORTS OF DEVELOPING COUNTRIES BY RESISTING PROTECTIONISM, SO THAT RISING INCOMES IN OUR COUNTRIES CAN BE TRANSLATED INTO INCREASED DEMAND FOR DEVELOPING COUNTRY EXPORTS. HERE THE TRADE AND DEVELOPMENT REPORT HAS SOUNDED A NOTE OF WARNING THAT NOT ALL TRENDS AND DEVELOPMENTS IN THIS AREA ARE REASSURING. MY DELEGATION AGREES THAT PROTECTIONIST PRESSURES IN DEVELOPED ECONOMIES ARE WORRISOME AND MUST BE RESISTED. THIS UNDERLINES THE VITAL IMPORTANCE OF ACHIEVING MAJOR RESULTS IN THE URUGUAY ROUND NEGOTIATIONS NOW UNDERWAY, AND OF DEVELOPING COUNTRY FULL AND ACTIVE PARTICIPATION IN THOSE NEGOTIATIONS. THE WORLD TRADING SYSTEM INTO THE 1990'S AND BEYOND WILL BE BASED ON THE ACHIEVEMENTS OF THE URUGUAY ROUND, AND A STRENGTHENED AND MORE EFFECTIVE GATT IN A POSITION TO DEAL WITH INTERNATIONAL TRADE PROBLEMS SYSTEM. WE ARE PLEASED, THEREFORE, BY THE RECOMMITMENT OF BOTH DEVELOPING AND DEVELOPED COUNTRIES TO THE SUCCESSFUL CONCLUSION OF THE ROUND ON TIME, BY THE END OF 1990.

THE OTHER MAJOR RESPONSIBILITY OF DEVELOPED COUNTRIES IS IN THE AREA OF FINANCIAL FLOWS. THE RESPONSIBILITIES OF DEVELOPED COUNTRY GOVERNMENTS IN THE AREAS OF OFFICIAL FLOWS, BOTH BILATERAL AND MULTILATERAL, ARE WELL KNOWN AND THERE IS NO NEED TO GO INTO DETAIL ABOUT THEM HERE. IN THE AREA OF BILATERAL DEVELOPMENT ASSISTANCE FLOWS, I WOULD LIKE TO UNDERLINE THE IMPORTANCE OF QUALITY OF AID AS WELL AS ITS QUANTITY, AND PARTICULARLY THE TERMS ON WHICH AID IS PROVIDED. IN CANADA WE HAVE BEGUN PROVIDING ALL BILATERAL DEVELOPMENT AID ON AN ALL-GRANT BASIS, REFLECTING OUR VIEW THAT GRANTS, NOT LOANS, ARE THE MOST APPROPRIATE MEANS OF PROVIDING AID, ESPECIALLY WHEN WE SEEK TO AVOID ADDING TO DEBT BURDENS.

WITH REGARD TO MULTILATERAL FLOWS, LET ME SIMPLY NOTE THAT AGREEMENTS ON RESOURCE INCREASES FOR THE WORLD BANK AND THE INTER-AMERICAN DEVELOPMENT BANK ARE ONLY THE MOST RECENT IN A NOTABLE SERIES OF ACTIONS BY DONOR COUNTRIES IN THIS SPHERE. THESE RESOURCE INCREASES, ALONG WITH PREVIOUS ACTIONS IN ESTABLISHING THE ENHANCED STRUCTURAL ADJUSTMENT FACILITY OF THE IMF AND THE FIFTH REPLENISHMENT OF THE AFRICAN DEVELOPMENT FUND, WILL ALLOW THE INTERNATIONAL FINANCIAL INSTITUTIONS TO PLAY A CRUCIAL ROLE IN THE FINANCING OF ADJUSTMENT AND DEVELOPMENT IN THE PERIOD AHEAD. WE ARE CONFIDENT THAT THIS TREND WILL CONTINUE WITH AN EARLY AGREEMENT ON THE NINTH REPLENISHMENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION.

EDITION IS A GOOD EXAMPLE. THE SECRETARIAT, AND ESPECIALLY THE SECRETARY GENERAL, DESERVE OUR COMMENDATION IN THIS REGARD. NATURALLY, IN A WORK OF THIS SIZE AND NATURE MY GOVERNMENT FINDS SOME OF THE ASSUMPTIONS AND PRESCRIPTIONS TO BE QUESTIONABLE, AND I WILL DEAL WITH SOME SPECIFIC POINTS IN THE COURSE OF MY REMARKS. BUT WE HAVE BEEN IMPRESSED BY THE INCREASING SOPHISTICATION OF THE ANALYSIS, AND THE QUALITY AND RELIABILITY OF THE STATISTICS ON WHICH MUCH OF THAT ANALYSIS IS BASED.

ESPECIALLY NOTABLE IN THIS REGARD, FROM OUR POINT OF VIEW, IS THE RECOGNITION OF THE SHARP DIFFERENTIATION IN THE SITUATIONS AND PROBLEMS OF THE VARIOUS DEVELOPING COUNTRIES. WE WERE ALSO HIGHLY IMPRESSED BY THE REPORT'S FRANK RECOGNITION THAT SUCCESSFUL ADJUSTMENT IN DEVELOPING COUNTRIES WILL REQUIRE DOMESTIC CONSENSUS ON THE SHARING OF COSTS AND BENEFITS. THIS IN FACT ADDRESSES ONE OF THE KEY POLITICAL AND POLICY CONUNDRUMS FACING THE INDEBTED DEVELOPING COUNTRIES - WE SALUTE THEIR SKILL IN RAISING THIS DELICATE ISSUE IN A HELPFUL MANNER.

ALL THIS TO SAY, MR. PRESIDENT, THAT WE ARE HAPPY WITH THE EVIDENT PROGRESS WHICH IS BEING MADE, AND IF I NOW GO ON TO MENTION SOME AREAS OF DISAGREEMENT, THIS IS IN THE HOPE THAT OUR CONSTRUCTIVE CRITICISM WILL HELP TO REINFORCE A TREND TOWARD REALISM AND SOPHISTICATION WHICH IS ALREADY UNDERWAY.

A KEY CONTRIBUTION WHICH THE DEVELOPED COUNTRIES CAN MAKE TO THEIR OWN BETTERMENT AND TO THE INTERNATIONAL ECONOMIC ENVIRONMENT IS TO ENSURE SUSTAINED, NON-INFLATIONARY ECONOMIC GROWTH IN THEIR OWN ECONOMIES. THIS IS THE FOUNDATION NOT ONLY FOR OUR OWN PROSPERITY, BUT ALSO FOR RESUMED PROGRESS IN THE DEVELOPING COUNTRIES. THIS YEAR'S TRADE AND DEVELOPMENT REPORT, LIKE THOSE OF OTHER INTERNATIONAL ECONOMIC BODIES, FORECASTS CONTINUED GROWTH IN OECD ECONOMIES, ALBEIT AT A SLOWER PACE THAN LAST YEAR. IN THE VIEW OF MY GOVERNMENT, A MODEST SLOWDOWN IN THE PACE OF OUR ECONOMIC EXPANSION IS NOT OBJECTIONABLE GIVEN THE IMPORTANCE AT THIS JUNCTURE OF CONTAINING INFLATION. I SUSPECT DELEGATIONS OF OTHER DEVELOPED COUNTRIES FACED WITH SEVERE INFLATIONARY PRESSURES WOULD HOLD A SIMILAR VIEW.

THUS WE CANNOT ACCEPT THE TRADE AND DEVELOPMENT REPORT'S ASSERTION THAT THE THREAT OF INFLATION HAS SUBSIDED. WHILE IT IS TRUE THAT INFLATION IS NO LONGER ACCELERATING, THIS IS WITHOUT DOUBT DUE TO THE STRONG AND TIMELY MEASURES TAKEN TO COMBAT IT, MAINLY IN THE AREA OF MONETARY POLICY. THESE MEASURES ARE STILL NEEDED AND WILL REMAIN NECESSARY FOR A WHILE YET. THE BITTER LESSON OF THE 1970'S IS THAT THE STRUGGLE AGAINST INFLATION CANNOT BE WON THROUGH GRADUALISM AND HALF-MEASURES, AND THAT PREMATURE RELAXATION OF VIGILANCE CAN BE DISASTROUS.

IT IS PRECISELY BECAUSE WE SEE THESE INSTITUTIONS PLAYING AN ENHANCED ROLE THAT MY GOVERNMENT FIRMLY REJECTS THE RECOMMENDATION IN THE TRADE AND DEVELOPMENT REPORT THAT THE IFIS SHOULD PROVIDE CONCESSIONAL DEBT RELIEF TO HEAVILY INDEBTED BORROWERS. SUCH A POLICY WOULD SERIOUSLY WEAKEN THESE INSTITUTIONS, BY DAMAGING THEIR OWN CREDITWORTHINESS AND ABILITY TO RAISE FUNDS IN CAPITAL MARKETS. IT WOULD ALSO RESULT IN HIGHER CHARGES TO BORROWING COUNTRIES, AS THE HIGHER RISK PREMIUMS DEMANDED BY FINANCIAL MARKETS WOULD HAVE TO BE PASSED ON, AND THIS WOULD PENALIZE ALL DEVELOPING COUNTRIES, REGARDLESS OF WHETHER THEY WERE HEAVILY INDEBTED OR NOT.

THE ROLE OF DEVELOPED COUNTRY GOVERNMENTS WITH REGARD TO PRIVATE FINANCING IS NOT NEARLY SO STRAIGHT-FORWARD. NEEDLESS TO SAY, IT IS QUITE IMPOSSIBLE FOR OUR GOVERNMENTS SIMPLY TO DIRECT THAT LOANS AND INVESTMENTS FROM PRIVATE SOURCES BE CHANNLED TO FOREIGN RECIPIENTS. SUCH DIRECTION COULD NOT BE GIVEN WITHOUT INCURRING LEGAL AND FINANCIAL RISKS AND OBLIGATIONS WHICH SHOULD NOT BE PASSED ON TO OUR TAXPAYERS. FURTHERMORE, WHATEVER GOVERNMENTS MIGHT DO IN THIS AREA MUST AT ALL TIMES BE COMPATIBLE WITH THEIR PRIMORDIAL DUTY TO ENSURE THE SOUNDNESS AND STABILITY OF THEIR NATIONAL FINANCIAL SYSTEM, AND ESPECIALLY THAT OF BANKS AND OTHER DEPOSIT-TAKING INSTITUTIONS. FOR THESE REASONS, MY GOVERNMENT CANNOT ACCEPT THE RECOMMENDATION CONTAINED IN THIS YEAR'S TRADE AND DEVELOPMENT REPORT THAT CANADIAN BANKS BE COMPELLED BY THE GOVERNMENT TO PARTICIPATE IN NEW LENDING AND/OR DEBT REDUCTION OPERATIONS IF THEY APPEAR HESITANT TO DO SO ON A VOLUNTARY BASIS. ✓

THE RESPONSIBILITY OF OUR GOVERNMENT IS TO ENSURE THAT THE VARIOUS LEGAL, ACCOUNTING, PRUDENTIAL, AND TAX REQUIREMENTS DO NOT ACT AS AN UNNECESSARY IMPEDIMENT TO OUR BANKS PARTICIPATING AND CONTRIBUTING THEIR FAIR SHARE TO MAKE THE STRENGTHENED DEBT STRATEGY WORK. OUR AUTHORITIES HAVE REVIEWED OUR VARIOUS REQUIREMENTS IN THESE AREAS, IN CONCERT WITH OUR G7 PARTNERS, AND HAVE ENSURED NOT ONLY THAT OUR BANKS ARE NOT PREVENTED FROM PARTICIPATING, BUT ON THE CONTRARY THAT THEY ARE WELL-EQUIPPED TO MAKE A CONTRIBUTION COMMENSURATE WITH THEIR SHARE OF THE PROBLEM.

MR. PRESIDENT, MY GOVERNMENT RECOGNISES THAT THE EXTERNAL DEBT BURDENS OF MANY DEVELOPING COUNTRIES HAVE BECOME A SERIOUS OBSTACLE TO DEVELOPMENT. THIS IS WHY WE HAVE SUPPORTED THE SIGNIFICANT STRENGTHENING OF THE DEBT STRATEGY WHICH HAS OCCURRED IN THE PAST YEAR, AND NOTABLY THE INCORPORATION INTO THE STRATEGY OF OFFICIAL SUPPORT FOR ACTUAL REDUCTION OF DEBT STOCKS AND/OR INTEREST RATES. WE ALSO CAN UNDERSTAND WHY SOME OBSERVERS, INCLUDING THE UNCTAD SECRETARIAT, MIGHT HAVE QUESTIONS ABOUT THE EXTENT OF ITS APPLICABILITY AND LIKELIHOOD OF SUCCESS. IN OUR

VIEW, JUDGEMENTS IN THIS AREA SHOULD BE SUSPENDED UNTIL THE STRATEGY HAS BEEN APPLIED SEVERAL TIMES AND A CERTAIN EXPERIENCE OF ITS PRACTICABILITY GAINED.

DEBT REDUCTION WILL NOT BE A PANACEA FOR THE FINANCIAL PROBLEMS OF ALL HEAVILY INDEBTED DEVELOPING COUNTRIES, BUT IT CAN IN SOME CASES HASTEN A RETURN TO ECONOMIC GROWTH AND, EVENTUALLY, CREDITWORTHINESS. DEBT REDUCTION IS LIKELY TO CONTRIBUTE POSITIVELY WHERE IT FORMS PART OF A BROAD PACKAGE OF FINANCIAL SUPPORT TO COMPREHENSIVE MACROECONOMIC AND STRUCTURAL ECONOMIC REFORMS IN THE DEBTOR COUNTRY. IT IS ONLY THROUGH STRONG ADJUSTMENT MEASURES TO CORRECT SHORT-TERM IMBALANCES AND LONG-TERM INFRASTRUCTURAL AND COMPETITIVE WEAKNESSES, THAT A DEBTOR COUNTRY WILL BE ABLE PUT THE DEBT PROBLEM BEHIND IT AND GRADUALLY REFURBISH ITS CREDITWORTHINESS. AND LET US BE REALISTIC ABOUT IT: ANY COUNTRY HAVING RESORT TO SIGNIFICANT DEBT REDUCTION WILL SEE ITS CREDITWORTHINESS IN WORLD FINANCIAL MARKETS DROP EVEN FURTHER, AT LEAST IN THE SHORT TO MEDIUM TERM. THIS MEANS THAT DOMESTIC SAVINGS WILL HAVE TO FINANCE A GREATER SHARE OF DEVELOPMENT EFFORT, AND THIS IS AN EVEN STRONGER ARGUMENT FOR VIGOROUS ADJUSTMENT EFFORT IN THE SHORT TERM.

FOR THESE REASONS, MR. PRESIDENT, MY GOVERNMENT CANNOT ACCEPT, THE RECOMMENDATION IN THE TRADE AND DEVELOPMENT REPORT WHICH CALLS FOR THE IMPLEMENTATION OF DEBT REDUCTION PRIOR TO THE IMPLEMENTATION BY INDEBTED COUNTRIES OF STRONG ADJUSTMENT PROGRAMS. THIS RECOMMENDATION INVITES BOTH DEVELOPED AND DEVELOPING COUNTRIES TO ACT CONTRARY TO THEIR PRINCIPAL RESPONSIBILITIES: ENSURING EFFECTIVE USE OF FINANCIAL SUPPORT PROVIDED BY DEVELOPED COUNTRIES, AND DESIGN AND IMPLEMENTATION OF VIGOROUS ADJUSTMENT PROGRAMS BY DEVELOPING COUNTRIES.

NOR CAN WE ACCEPT THE THEORETICAL UNDERPINNING FOR THE SECRETARIAT'S RECOMMENDATION, NAMELY THAT MACROECONOMIC DISORDER IN SOME COUNTRIES HAS REACHED SUCH A STATE THAT STABILISATION IS IMPOSSIBLE WITHOUT PRIOR DEBT RELIEF. ON THE CONTRARY, IN MANY OF THESE COUNTRIES EXTERNAL DEBT SERVICE IS FAR FROM BEING FULLY CURRENT AND THUS CANNOT BE A MAJOR FACTOR IN THE ACCELERATING INFLATION, DECLINING EXTERNAL COMPETITIVENESS AND DETERIORATING PUBLIC FINANCES WHICH CHARACTERIZE THEIR CONDITION.

MR. PRESIDENT, MY GOVERNMENT RECOGNISES THAT STRONG ADJUSTMENT POLICIES ARE MUCH EASIER TO PRESCRIBE THAN THEY ARE TO IMPLEMENT. WE ARE ALSO COGNISANT OF THE NEED TO PROTECT THE POORER SECTORS OF THE POPULATION AGAINST THE HARSH ASPECTS OF MACROECONOMIC STABILISATION, PARTICULARLY THE NECESSARY BUT OFTEN PAINFUL REALIGNMENTS OF RELATIVE PRICES. WE HAVE SUPPORTED AND ENCOURAGED THE IMF AND THE WORLD BANK TO TAKE SUCH CONSIDERATIONS

INTO ACCOUNT, TO FACTOR "ADJUSTMENT WITH A HUMAN FACE" INTO THEIR VARIOUS PROGRAMS. BUT THE FEAR OF SOCIAL DISCOMFORT MUST NOT BECOME AN EXCUSE FOR INACTION, PARTICULARLY BECAUSE - AND THIS IS SOMETIMES FORGOTTEN IN DISCUSSIONS OF THESE MATTERS - THE EVENTUAL CONSEQUENCES OF RESISTING ADJUSTMENT FALL EVEN MORE HEAVILY ON THESE SAME POOREST SECTORS.

THESE CONSIDERATIONS HAVE PARTICULAR RELEVANCE FOR THE LEAST DEVELOPED COUNTRIES, WHOSE SITUATION IS OF SPECIAL CONCERN TO US AT THIS TRADE AND DEVELOPMENT BOARD. MY DELEGATION WILL INTERVENE DURING THE DEBATE ON THAT ITEM IN THE SECOND SESSIONAL COMMITTEE. NEVERTHELESS, I WANTED TO NOTE AT THIS TIME THAT THE CHALLENGE OF ADJUSTMENT IS BOTH ACUTE AND DIFFERENT IN THE LLDCS. THE SEVERE STRUCTURAL PROBLEMS OF THESE COUNTRIES, CHARACTERIZED BY A POOR INFRASTRUCTURE, A NARROW EXPORT BASE AND OTHER FACTORS WHICH MAKE SUPPLY CAPACITY QUITE INFLEXIBLE, DIMINISH THEIR RESPONSIVENESS TO STANDARD ADJUSTMENT MEASURES. THIS DOES NOT IMPLY THAT ADJUSTMENT CANNOT WORK IN THESE COUNTRIES, BUT RATHER THAT IT WILL BE A LENGTHY TASK INVOLVING QUITE PROFOUND REFORMS AND CHANGES. WE HAVE RECOGNISED THAT EXTERNAL FINANCIAL SUPPORT FOR ADJUSTMENT IN THESE COUNTRIES MUST BE GEARED TO THE LONGER TIME FRAME INVOLVED, BE IT FROM THE IMF, THE WORLD BANK, OR THE PARIS CLUB, AND HAVE SUPPORTED INITIATIVES IN ALL THESE BODIES TO PROVIDE FINANCIAL SUPPORT TO THE LEAST DEVELOPED ON A CONCESSIONAL BASIS OVER A LONGER TIME FRAME. IN THIS CONTEXT, I WOULD ALSO LIKE TO NOTE THAT THESE COUNTRIES ARE A MAJOR PREOCCUPATION OF CANADA'S DEVELOPMENT ASSISTANCE PROGRAM.

MR. PRESIDENT, IF I HAVE DWELT SOMEWHAT ON THE TOPIC OF ADJUSTMENT, THAT REFLECTS THE VIEW OF MY GOVERNMENT THAT IT REPRESENTS THE KEY ECONOMIC POLICY CHALLENGE OF THE DAY. FOR THAT REASON, WE ARE ESPECIALLY HEARTENED AND ENCOURAGED BY THE CLEAR TREND AMONG DEVELOPING COUNTRIES TO ADOPT COMPREHENSIVE ECONOMIC ADJUSTMENT PROGRAMS AND TO SEEK EXTERNAL SUPPORT THROUGH THE COOPERATIVE, MULTILATERAL FINANCIAL SYSTEM. MY COUNTRY IS DETERMINED TO SUPPORT THEIR EFFORTS.

THANK YOU.

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