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Statement

by

Hon'ble Mrs. Preneet Kaur
Minister of State for External Affairs of India

at the

Plenary Meeting

of the

United Nations Conference on the World Financial and Economic
Crisis and its Impact on Development

New York

June 25, 2009

Mr. President,

The United Nations provides a unique forum, with unparalleled legitimacy and inclusivity. This UN Conference on the World Financial and Economic Crisis and its Impact on Development is only the second such gathering held of the United Nations on the financial and economic system and architecture, the first being the UN Conference on the Monetary and Financial System held in Bretton Woods in 1944 with the participation of all the then 44 members of the UN. In that sense, this is a truly historic meeting. It is vitally important that this landmark event coupled with the UN's convening power is used to hear the voice of the entire global community on the extraordinary crisis being faced by the global economy today. Allow me, therefore, at the outset to express our appreciation for all your personal efforts in organizing this Conference.

Mr. President,

The global financial and economic crisis was the result of a failure of global regulatory and supervisory mechanisms, excessive speculation and excessive risk taking. This was further aggravated by global imbalances. There is now a general acceptance that the present economic and financial crisis is the worst recession since the Great Depression and the first ever contraction of global GDP in the post-War period. Given the magnitude of the crisis and the widespread meltdown, some have dubbed it the Great Recession.

Developing countries were not the cause of this crisis, but they are amongst its worst affected victims. Their exports have been hit and they are facing vastly reduced capital flows and foreign direct investment. The economic crisis coupled with the food and fuel crises of last year has slowed down their economic growth and casts an ominous shadow on eradication of poverty and achievement of the Millennium Development Goals (MDGs). The human dimension to this crisis is even more frightening with estimates of additional millions being pushed back into extreme poverty.

For governments in developing countries the loss in export earnings and remittances with adverse consequences on employment and growth has meant reduction in the fiscal space for investments in critical infrastructure and social sectors like education, health, etc. as much larger social safety nets have now to be financed. As Prime Minister of India, Dr. Manmohan Singh, had said at the G-20 London Summit: "While India will be able to manage, many other developing countries may not be in the same position and this is where the international community can help. We must ensure that countries hurt by the massive withdrawal of private capital that has taken place, are able to rely upon an increased flow of resources from the international financial institutions. This will help these countries to maintain a higher level of demand than would otherwise be possible and thus help global revival".

Mr. President,

Any new thinking for a more sustainable global economic system has to be based on a conscious policy where there is a building up of the capacities of the poorer countries and regions to play a healthy and equitable role in tapping the potential of free market for their prosperity and advancement.

Specific responses to the financial and economic crisis must address both short-term needs, as well as the longer-term imperatives of reforming structures of global governance, including here at the UN and at the Bretton Woods Institutions (BWIs).

These reforms need to redefine the role of institutions of global economic and financial governance to reflect contemporary realities of today while being rooted in pragmatism and collaboration. It is imperative that in key decisions and decision-making processes the voice and real participation of developing countries is substantially strengthened and increased.

The future shape of international governance, including of international financial institutions (IFIs) and the crafting of a new global financial architecture is, perhaps, the most far-reaching element of reform for providing global stability and security.

At the UN, the General Assembly must be revitalized along with a real reform of the Security Council. We believe that this requires expansion in both the permanent and non-permanent categories of the Security Council and reform of its working methods.

The present crisis has once again underscored the need for the Economic and Social Council to be robust and effective in coordinating global responses to global challenges for a better quality of life for the vast majority of humankind.

At the BWIs, the voice and quota reform needs to be accelerated so as to make these institutions both responsive and effective as well as credible and relevant in continuing to play vital roles in global economic affairs. Again, as my Prime Minister had said, "The world has changed greatly since the multilateral institutions were established and the role of these institutions needs to be redefined and their mandate suitably revised. The representation of the developing and emerging market countries in the decision making levels of these institutions also needs to be improved. Better representation is essential if the institutions are to have the legitimacy they need to play their role".

Mr. President,

Of immediate importance is the revival of the world economy. Counter-cyclical stimulus measures are, therefore, critical. There must be a substantial

increase in lending by international financial institutions (IFIs) and the Multilateral Development Banks (MDBs) with increased limits for developing countries and emerging economies. The capacities of the MDBs to do so, including adequacy of their capital, requires to be urgently addressed.

There is a particular imperative to make good the decline that has taken place in capital flows to developing countries by increased multilateral and bilateral flows, including ODA. Increased resources for international financial institutions are very relevant but conditionalities associated with the use of these resources need to be softened, otherwise their deployment will be counter-productive in the countries affected.

Mr. President,

Measures to address the crisis should not create other problems for the future.

We need to address regulatory and systemic flaws. There should be better and transparent regulatory mechanism for capital markets, including the non-banking sector, redefine capital requirements to avoid pro-cyclicality, and avoid build-up of excessive leverage.

There should be a better system of surveillance and regulation. Surveillance should be even-handed with greater focus on the systemically important institutions. We also need to develop an effective early warning system to spot a build-up of risk. It is particularly important that in any such vulnerability assessment there is no intrusiveness.

In this context, it is particularly necessary that we should not permit protectionist tendencies, not just protectionism of trade in goods, but also protectionism in free flow of persons, protectionism in financial services as well as imposition of non-tariff barriers, to succeed in our response measures.

Developing countries have limited policy space. They must continue to have this space to determine measures that best fit their specific requirements.

Mr. President,

Insofar as India is concerned, we have fared much better than others though we are also affected and our growth rates have come down from the nearly 9% average of the past four years to 6.7% in 2008-09.

In response to the crisis, we have made aggressive use of fiscal and monetary policy, with particular focus on fiscal stimulus in infrastructure investment.

Our primary challenge is to get rid of chronic poverty, ignorance and disease, which still afflict millions and millions of our citizens. For this, we need a high rate of growth coupled with measures to make it inclusive.

We have endeavored to achieve this through huge investments in the rural and farm sector, a massive rural employment guarantee scheme, infrastructure development projects, major national food security and rural health missions, and an urban renewal mission.

Mr. President,

Leaders of some of the largest economies, the G-20, have met twice in the past months and declared their determination to instill confidence and restore stability to the world economy. They have also pledged to strengthen regulation, reform international financial institutions, reject protectionism and build recovery. The package of US\$ 1.1 trillion to restore credit and growth together with national measures constitutes a global plan for recovery on an unprecedented scale.

India has actively engaged in the G-20 framework aimed at redressing the current global economic situation so as to bring the global economy back to the trajectory of sustained growth.

The Commission of Experts appointed by you Mr. President that included the former Governor of the Reserve Bank of India, Dr Y V Reddy, has also made several recommendations that deserve serious consideration.

Mr. President,

We have a vested interest in the world economy doing well as that is a key enabler for our growth too.

But as we strive for global solutions to this global crisis, we must remember that development or economic growth cannot be slowed, halted or sacrificed in the search for solutions to the crisis.

Thank you.
