
Your Excellency President of the General Assembly,
Your Excellencies Heads of State and Government,
Excellency Secretary General of the United Nations,
Excellencies Ministers of Member States,
Distinguished delegates,

Allow me to begin by thanking you Mr. President and the Secretary General for convening this debate on the “State of the World Economy and Finance in 2012”. The United Nations with its convening power and collaborative strength of all member states is uniquely placed to guide such a global discourse.

From the perspective of developing economies, the current crisis, which began in 2008, interrupted a fairly long period in which developing countries experienced broad based growth. Asia was the fastest growing region, but it was not the only one. Growth was fairly broad based with sub-Saharan Africa and Latin America also participating.

These gains in prosperity were interrupted when the crisis of 2008 produced a deceleration in global growth in 2009. At first, it looked as if the crisis had been effectively contained as the industrialised countries and the global economy recovered strongly in 2010. But progress was again interrupted in 2011, with the emergence of sovereign debt problems in Europe, especially in the Eurozone periphery.

These problems persist. The Eurozone is projected to experience a mild contraction in the current year with unemployment at very high levels. There are substantial downside risks if confidence is not restored. The US is in a better position but growth is still weak and unemployment, though declining, remains high.

What is most disturbing is that there seems to be little consensus on how to move forward. Monetary authorities in both the US and Europe have acted boldly to counter recessionary tendencies. This had some effect, but there are serious doubts on whether further space exists to continue these policies. On fiscal policy, there are sharp differences on how to proceed and many distinguished economists argue that fiscal austerity is actually the wrong medicine in the circumstances.

Whatever be the correct balance on this issue, the fact that the policies are not showing results in terms of an early return to growth and a moderation in unemployment creates the danger of “policy fatigue”. This can lead to extreme turns in both politics and policy.

The problem is all the more complicated because we are not dealing with a crisis in one country but in several countries in the industrialized world. Given the high degree of inter-
connectedness between these economies, we would get much better results if the response was in the form of co-ordinated national policies. This would also help mobilize domestic public support for difficult policies by showing that they are part of a global effort to deal with the problems, in which other countries are doing their bit.

Unfortunately, the world lacks institutions of global economic governance which could produce the policy co-ordination that is needed. Co-ordination is proving difficult even within the group of Eurozone countries. It is not surprising that it is proving difficult in wider groupings. The G-20, which includes all the major economies both industrialized and developing, is attempting to create a system of mutual consultation that might help to co-ordinate policies across the G-20. However, that effort is still a work in progress. It remains to be seen how effective these mechanisms will prove.

Mr. President,

Slow growth in the industrialized countries is not in itself a problem since these countries currently enjoy very high levels of per capita income. However, it is important to ensure that the slower growth that represents the new normal is managed in a way that ensures greater inclusiveness and social acceptability. Inequality has risen sharply in these countries and high levels of unemployment combined with inequality create the perception that the system is unfair.

Industrialised countries must also pay greater attention to the need to ensure sustainability of their high levels of consumption. These levels currently involve a carbon footprint per capita which we know is unsustainable. Serious efforts by the industrialized countries to lower their per capita carbon footprint will trigger new technologies which alone can provide a solution to this problem. Over time this will also allow other countries to make their growth patterns more sustainable.

Developing countries face very different challenges. They have much lower per capita incomes and for them growth is essential if they are to raise their population to basic levels of living that will ensure human dignity. The slowdown in industrialised countries after 2008 has had an adverse impact and this must be countered so that these countries can return to the path of rapid growth.

Although developing country growth has slowed down, it is a matter of satisfaction that it has remained more robust than many would have expected. This “growth resilience” reflects the fact that large numbers of developing countries now have stronger human and institutional capacities to grow. These economies are not delinked from industrialised countries; the links are strong, but they operate on a higher underlying growth potential.

Slower growth in the industrialised world will limit the export potential of developing countries. However, faster growth in developing countries as a group is creating new opportunities for trade expansion which would help offset loss of markets in the industrialised world.

The shift in economic weight in favour of the developing world that is taking place is a natural consequence of the process of convergence and should be welcomed. Faster growth in the developing world is not just good for developing countries. It has positive
feedback effects on the industrialised world, which could help the recovery in industrialized countries.

**Mr. President,**

Our experience in India reflects what I have said about the developing world. In the five years prior to the crisis, the Indian economy grew at an average rate of 9%. Following the crisis, it slowed down to an average of just over 7%. We believe India has the potential to grow at rates between 8 or 9 per cent for the next twenty years and to do so in an inclusive manner. There are many challenges we have to face domestically to achieve this target but we believe we can do so. However, we would be greatly helped if the global environment is supportive, and we are willing to work with others to make it so.

What can global community do to restore growth in the developing world? I have already mentioned the need to reach agreement as early as possible on the resolution of the sovereign debt problem in the Eurozone. Early resolution will remove much of the uncertainty which currently pervades financial markets and which affects investor sentiment adversely. Resolution of this uncertainty, and the consequent elimination of downside risks, is actually as important as getting faster growth in the industrialised world.

Growth in developing countries depends critically upon a well functioning international financial system channeling resources efficiently around the world. Given the much higher growth potential in developing countries, a well financial system should ensure a sufficient flow of long term capital towards them.

However, the current state of the global financial system does pose problems. Excessive leverage, built up in the past due to consciously lax regulatory policies, is now sought to be corrected. This is being done at a time when a large part of the banking system of industrialised countries has been weakened by the sovereign debt problems in Europe, and the extent to which it can be recapitalized remains uncertain. The consequent deleveraging could have an adverse effect on longer term capital flows. Excess liquidity resulting from lax monetary policy in industrialised countries, combined with deleveraging by the banks, could create an excess of short term capital even as longer term capital dries up. This will not be to the advantage of developing countries.

The multilateral development banks can play a major role in correcting these aberrations. Until recently, it used to be thought that private financial markets were efficient and for this reason the financing of productive investment in developing countries could easily be handled by the private sector. The crisis has taught us that many of the assumptions about efficient intermediation were not correct. We also know that in the short run the international banking and financial system will be under strain. This is therefore a time when the Multilateral Development Banks, especially the World Bank, should significantly expand their lending for infrastructure development in the developing economies. Investment in infrastructure would make a major contribution to strengthening the growth potential of developing countries. The scale of the challenge can be appreciated from the fact that if the World Bank is not recapitalised, the scale of IBRD lending from next year onwards will be no higher in real terms than it was ten years ago!
The international community responded promptly to the need to provide additional resources to the IMF after the crisis. A further expansion is being considered to deal with the spillover of the sovereign debt crisis. These resources will be used primarily to assist richer countries. There is surely an equally overwhelming need to recapitalize the MDBs to meet the financial requirements of developing countries for financing infrastructure.

Trade is universally regarded as the most important lubricant for development. It is unfortunate therefore that negotiations to complete the Doha Development Round are languishing. An early conclusion of this Round, in a manner reflecting the priorities of the Development agenda, would send a major positive signal to the global community.

Mr. President,

The economic woes we face today cannot be overcome without the major developed countries taking the lead to stimulate economic growth. There is an urgent need for farsighted leadership which can call for tough decisions while managing popular aspirations.

Steps at the national level must be accompanied by a broader based advance in improving global governance. The most pressing challenge is the reform of the international financial system giving important developing countries more voice and participation in the decision making structures of the BWIs. We welcome the beginning that has been made in this direction. It must be continued further.

An equally critical element in global governance is the long pending reform of the UN Security Council so that it reflects contemporary realities and not the world of 1945.

Looking further ahead, the Climate Change negotiations are a major challenge. We must ensure progress in a manner which reflects the principles of equity and common but differentiated responsibility which underlie the UNFCCC. Urgent action is needed to operationalize the Green Climate Fund and the Technology Mechanism.

The upcoming UN Conference on Sustainable Development in Rio de Janeiro next month is an opportunity to set a strong agenda for sustainable development including growth, social cohesion and environment protection. Green economy must not come in the way of efforts of developing countries to promote inclusive growth to eradicate poverty.

I thank you.