



**STATEMENT BY MR. RAGHUNATH JHA, MEMBER OF PARLIAMENT AND
MEMBER OF INDIAN DELEGATION ON AGENDA ITEM 83:
MACROECONOMIC POLICY QUESTIONS: (B) INTERNATIONAL
FINANCIAL SYSTEM AND DEVELOPMENT; AND (C) EXTERNAL DEBT
CRISIS AND DEVELOPMENT AT SECOND COMMITTEE OF 59TH SESSION
OF THE UN GENERAL ASSEMBLY ON OCTOBER 12, 2004.**

Mr. Chairman,

We would like to express our appreciation to the Secretary-General for the reports on the macro-economic policy questions. We associate ourselves with the statement made by the distinguished representative of Qatar on behalf of the Group of 77.

Mr. Chairman,

Some striking statistics have been provided in the report of the Secretary-General relating to resource flows to developing countries. For the seventh year in a row, the net transfer of resources to developing countries continued to remain negative, reaching an alarming level of US \$248 billion in 2003. Net inflows of Foreign Direct Investment (FDI) to developing countries in 2003 fell to its lowest levels since 1996. Official flows from the multilateral development and financial institutions continued to decline in 2003.

There is a significant shortfall in the provision of Official Development Assistance (ODA) to developing countries in comparison to the commitments made at the Monterrey Conference and in relation to their requirements, as determined by the World Bank and other studies, for meeting their Millennium Development Goals. The increases in the ODA, thus far, are mostly reflected in debt forgiveness, crowding out development aid.

Economic growth depends, unquestionably, on the rate of investment. Without achieving higher growth rates, the developing countries are unlikely to meet the Millennium Development Goals and other commitments undertaken by them. The

international community must address the issue of reform of the international financial system with a sense of urgency in order to make it more responsive to the needs and interests of developing countries.

As rightly observed by the Secretary-General, the developing countries have taken a wide range of measures in recent years to strengthen financial regulations and supervision in order to lessen their susceptibility to shocks. He adds that the international community needs to promote policies and measures to reduce the developing countries' exposure to external developments. In our view, sustaining the global recovery process and bringing about an orderly correction of the global imbalances require a coordinated and cooperative approach with an equitable sharing of the burden of adjustment.

Effective surveillance to promote stability, through enhanced resilience of countries to economic shocks and markets, is the key to crisis-prevention. Much remains to be done to strengthen the effectiveness of surveillance and enhancement of its pro-growth orientation. Developing countries do not perceive policy recommendations as adequately capturing their priorities as well as their institutional setting and circumstances. We agree with the Secretary-General that strengthening the impact of surveillance on developed economy policies would be crucial to further improve the overall surveillance framework.

Another important dimension in crisis-prevention is the development of multilateral financial institutions' facilities in contingent situations to help countries, which are otherwise well-managed but may face potential problems. This will infuse confidence in the market and minimise the contagion risks arising out of imperfect and uncertain private market capital flows. We welcome in this context the establishment of the Trade Integrating Mechanism (TIM) to support multilateral trade liberalisation.

In the area of international standards and codes, financial regulations and supervision, the Secretary-General observes that the consensus on Basel-II does not necessarily imply that the interests of the developing countries have been taken into account. In this context, we reiterate the need to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes.

Although a number of proposals have been mooted in recent years to strengthen the voice and representation of developing countries by re-designing the international financial architecture, there has been little progress in this regard. We agree with the Secretary-General that the political will to comprehensively address this extremely important issue could point the way forward. We believe that the 2005 Major Event would contribute, in a substantial manner, towards decisions in these matters.

We welcome discussions on innovative financial mechanisms and innovative sources of financing. In either case, these should not diminish in any way the existing level of resource flows or the need for greater voice and representation of the developing countries in the existing international financial institutions and their decision-making procedures and processes. They should not detract from the obligations of the

developed countries in fulfilling their ODA commitments. The new mechanisms and the new sources should not lead to greater burdens on developing countries.

Mr. Chairman,

The debt problems faced by many low and middle-income countries continue to act as severe constraints on their ability to accelerate economic development and to achieve the Millennium Development Goals. Given their higher vulnerability to shocks, policy deficiencies and weak institutions and their high dependence on official concessional debt and grants, for low-income countries, the design of the operational framework for measuring debt sustainability has to strike an appropriate balance between rules and discretion.

The need for a speedy conclusion of the Fourteenth replenishment of the International Development Association cannot be over-emphasised. We also need to utilise the full potential of mechanisms such as the fourth Amendment for special allocation of the Special Drawing Rights [SDRs], approved by the IMF Board in 1997, for financing development, which has not yet taken effect.

Mr. Chairman,

We would like to reiterate, in conclusion, the need to build on the agreements reached at the Millennium Summit and in the Monterrey Consensus to carry forward our agenda during the preparations for the 2005 Major Event.

Thank you, Mr. Chairman.

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