



STATEMENT ON BEHALF OF THE GROUP OF 77 AND CHINA BY MR. ASAD MAJEED KHAN, COUNSELLOR, PAKISTAN MISSION TO THE UN, ON AGENDA ITEMS 52(B): MACRO-ECONOMIC POLICY QUESTIONS: INTERNATIONAL FINANCIAL SYSTEM AND 52 (C): EXTERNAL DEBIT CRISIS AND DEVELOPMENT, IN THE SECOND COMMITTEE OF THE GENERAL ASSEMBLY (New York, 15 October 2007)

Madam Chair,

I have the honour to make this Statement on behalf of the Group of 77 and China on Agenda Items 52 (b): International Financial System and 52(c): External Debt Crisis and Development.

2. We thank the Secretary General for his useful reports on these two agenda items.

3. Our deliberations on the issues of External Debt and International financial System assume special significance this year. Firstly, in the context of our preparations for the Mid Term Review of Monterrey Conference in Doha, Qatar in 2008. Secondly, because this year we reach the half way mark of 2015, the target date for achieving the Millennium Development Goals (MDGs).

4. Analyzing the recent developments on global debt scenario, the Secretary General's Report notes continued improvement in the external debt situation of the developing countries through improved debt management strategies and more intense international cooperation. Nonetheless, the Report also notes that the total external debt of developing countries increased in nominal value.

Madam Chair,

5. The welcome debt relief under the Heavily Indebted Poor Countries Initiatives (HIPC) and Multilateral Debt Relief Initiative (MDRI) may have released resources for development related expenditure in the developing countries, yet they are completely inadequate in helping the developing countries to realize the Internationally Agreed Development Goals (IADGs) including MDGs. The situation clearly demands urgent, bolder, and more encompassing initiatives to solve the external debt problems of the developing countries in an effective, equitable and development oriented manner.

6. Importantly, debt relief has been too slow and has not been additional as planned and should be expanded to cover those countries that needed it and were not part of HIPC and MDRI initiatives. The Secretary General's Report also acknowledges that Debt relief in HIPC has not been additional, which brings into focus the need to reconsider the modalities and eligibility criteria for debt relief in a manner that would ensure additionality and would support future debt relief for all those who needed it.

Madam Chair,

7. The Group of 77 and China has consistently maintained that the long-term sustainability of debt for developing countries will require additional resources to finance investments. The importance of additional resources and the need for the full implementation of aid commitments is, therefore, integrally linked to the comprehensive treatment of the debt problems of developing countries. Debt relief can play a role in liberating resources but it should not replace other sources of financing.

8. In this regard the Group of 77 and China is seriously concerned that despite promises of an additional \$50 billion in ODA, the ODA flows actually declined and relied heavily on debt cancellation and restructuring.

9. We believe that debt sustainability, both in terms of its definition and calculation, is critical to the whole debate around debt relief. For this reason, the Group of 77 and China wishes to reiterate its long-held position that debt sustainability should be linked to a country's capacity to achieve its national development goals including the IADGs. It is, therefore, of utmost importance firstly to link more closely debt policy with growth and development and to recognize the country-specific character of sustainability. Secondly, to apply greater case-by-case flexibility in the setting and implementation of thresholds. Thirdly, to consider debt scenarios in the face of possible external shocks. Lastly, debt sustainability analyses should be applied in a flexible manner and should not be premised on the use of subjective governance indicators.

10. We take this opportunity to reiterate our call for the consideration of additional measures and initiatives aimed at ensuring long-term debt sustainability through increased grant-based financing, cancellation of 100 per cent of the official multilateral and bilateral debt of heavily indebted poor countries and, significant debt relief or restructuring for low- and middle-income developing countries with an unsustainable debt burden.

11. The efforts of developing countries to maintain debt sustainability would also be greatly facilitated by improved market access for their exports and other measures to enhance their productive capacity without which, growth and sustainable development cannot be attained.

Madam Chair,

12. The Group of 77 and China also finds dubious, as suggested in the Secretary General's Report as well, the assertion that new bilateral lenders may be benefiting from the latest round of debt relief without sharing the burden of cost. The presence of new lenders, we believe is generating a healthy competition which would allow the recipient countries plurality of choice and enable them to attract much needed resource flows for development in areas where traditional lenders have had reservations to lend.

13. Let us now turn to Agenda item 52(b) on the International Financial System and Development.

Madam Chair,

14. The global financial system has evolved in ways, and in directions, over which neither international institutions nor most Member States have much influence or control. The developing countries certainly have little ability to influence financial trends despite the fact that these financial trends have significant implications for their growth and development, not the least due to the volatility of the situation. Perversely, in part to guard against this volatility, developing countries have accumulated large reserves which are transferred back to the deficit country. This has contributed to enlarging the net outflows of finance from the developing to the developed countries, which went up from 533 billion in 2005 to 662 billions in 2006. Not only this but the actual resource flows for development also reportedly declined.

15. A global economic slow down with prospects of a possible recession is forecast in the wake of growing global imbalances, falling commodity prices and a weakening dollar. The growing sense of unease about the state of world's economy is reinforced by sudden fluctuations in the international financial markets.

Madam Chair,

16. In an integrated and globalized world economy the developing countries are increasingly vulnerable to actions and /or initiatives originating in the developed countries over which they have little or no control. This is particularly true for the innovative and complex financial products developed and introduced in the markets of the advanced countries. Clearly, there is need for greater and more stringent regulatory mechanisms and transparency in handling such products/innovations in the developed countries. Any hastily conceived initiatives can have devastating implications for the developing countries.

17. The Group of 77 and China have long argued for a comprehensive reform of the international financial system and its governance architecture. We must not avoid any further the issue of equitable international economic governance. The rich cannot continue to determine the policies and parameters of global finance, monetary and trade policies that impact so significantly on the destinies of the billions in the poorest countries.

18. While we may continue to pursue the governance reforms in the medium to long term, we may also need immediate measures and actions to address the challenges of a slowed and recession prone global economy.

Madam Chair,

19. The Group of 77 and China supports a comprehensive reform of the international financial architecture, including enhancement in the voting powers of developing countries, in a time bound manner. The reform efforts should also address the objectives for which the IMF was created: one, to ensure financial stability and two, to ensure access to (short-term) financing for those countries which actually need it. The G-77 and China will continue to press for such a fundamental reform of the international financial system, and its governance architecture, in all relevant forums.

20. Moreover, the current attempts to reform the IMF address only certain aspects of these challenges. Changes in distribution of voting rights alone will not resolve the fundamental problems on instability and unavailability of liquidity for those who really need it. The world needs to develop a strategic vision for the comprehensive reform of the international financial and monetary system that is supportive of the objectives of rapid, balanced and sustained growth and development in a "globalized" international economy. Reform must encompass liquidity creating, including SDRs, ODA, Debt, FDI and private investment.

21. Lastly, it is ever more urgent to undertake measures to mitigate the impact of excessive volatility of short-term capital flows and to improve transparency of and information about financial capital flows. To this end, it is imperative that IFIs have a suitable array of financial facilities and resources to respond to such financial crises and their contagion effect on developing countries.

Madam Chair,

22. We trust that the forthcoming review of the Monterrey Conference on Financing for Development, to be held in Doha, Qatar in 2008, will provide a valuable opportunity to evolve agreement on a comprehensive and effective approach to address the above challenges including resource requirements for the development of the developing countries.