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Full Text of PM's Remarks at the G-20 Meeting at Pittsburgh: Plenary Session

Following is the text of the Prime Minister, Dr. Manmohan Singh's remarks at the Plenary Session of G-20 Meeting at Pittsburgh:

"Mr. President, let me begin by thanking you for the excellent arrangements made for this Summit and for your warm hospitality.

We have discussed the complex challenges posed by the need to revive the global economy. I would like to focus on what this implies for the developing countries.

We all know that these countries were in no way responsible for the crisis, but in many ways, they are the hardest hit. In the seven years before the crisis, the GDP of the developing countries grew at an average of 6.5 per cent per year. In 2009 it will grow by only 1.5 per cent, implying a fall in real per capita income.

Of course, experience varies across countries. Countries in Asia have generally fared much better. Countries in sub-Saharan Africa and in many other regions have been very badly hit.

India too has been affected but, in common with other Asian countries, we have weathered the crisis relatively well given the circumstances. After growing at 9 per cent per year for four years our economy slowed down to 6.7 per cent in 2008-09. In 2009, despite a drought, which will affect agricultural production, we expect to grow by around 6.3 per cent in 2009-10 and then recover to 7 to 7.5 percent growth next year. This relatively strong performance is partly due to the strong stimulus measures introduced in the second half of 2008-09, which have been continued in the current financial year.

However, the fact that some of us have fared relatively well does not mean that the crisis has not affected the developing world significantly. The fact that the growth of developing countries as a group will fall to 1.5 per cent indicates the extent of the impact.

An estimated 90 million people in the developing world are likely to be pushed below the poverty line. Lower revenues will also lead to lower levels of expenditure on rural infrastructure, health and education. This will not only hurt future growth, but also delay achievement of the Millennium Development Goals. Social and political tensions could increase, undermining the national consensus in support of much needed structural reforms and adjustment.

The prospects of convergence, which seemed bright before the crisis, have receded. We must take steps to counter these developments and restore the momentum of growth in the developing world.

First, the problem must be tackled at its root by ensuring the quickest possible return to normalcy in the global economy. This requires a commitment that we will not undertake any premature withdrawal of stimulus. We must certainly plan for an orderly "exit" when the time is right, but that time is not now. The global economy may be bottoming out, but it is not expected to reach 3% growth until the end of 2010.

The depressed state of the global economy translates into a considerable loss of export demand for the developing countries. Exports of non-oil developing countries are expected to decline by about $900 billion in 2009, compared to the previous year. They will remain well below the trajectory earlier projected for several years. This is bound to reduce production, incomes and employment in the developing countries.

The measures taken by the G-20 to increase the flow of assistance will help, and they certainly represent an important achievement in international cooperation. However, the scale of the transfers we have planned will only help the developing countries to manage their balance of payments at depressed levels of economic activity. They cannot counter the effect of the loss of exports.

To resuscitate growth in the developing countries, we have to replace lost export demand by expanding other components of domestic demand. The best option is to expand investment. An obvious area where additional investment is needed in developing countries is infrastructure, including energy, transport and other infrastructure for public services. These investments can be made ahead of requirements and therefore are an ideal form of countercyclical activity.

The World Bank and the other regional development banks can play a major role by financing such investment. They should expand lending for infrastructure development to emerging market countries which have relied on capital markets in more normal times, but will need support in the medium run, till capital markets recover. The poorer, low-income countries had very little access to capital markets. For them, financing on suitable terms may have to be made available for an even longer period.

A strategy of expanding investment demand in developing countries to replace lost export demand will not only help growth in developing countries, it will also contribute to a broader global revival. This is because the import content of investment is typically higher than of exports, which means a significant percentage of the initial increase in demand will spill over into the global economy.

The World Bank has announced that the volume of IBRD lending would be increased to $100 billion over the next three years. This is commendable. However, if the capital base of the IBRD is not expanded, they will have to compress lending at the end of the three year period to less than the pre-crisis level. This is surely not acceptable.

There is, therefore, an overwhelming case for doubling the capital of the IBRD. Similar increases in capital are needed for the other regional development banks also.

I realize there may be hesitation in committing additional public resources for recapitalization. However, we must keep in mind that what is needed for these institutions is small compared to the massive scale of public money used to stabilize the private financial system in industrialized countries. Some additional effort is surely justified to help the developing countries to cope with the spillover effects of a crisis for which they were not responsible.

Finally, Mr. President, a word on trade. The collapse in export markets makes it all the more important that the market access of developing countries is not constrained by protectionism. I recognize that when growth is low, and unemployment is high, it is inevitable that protectionist pressures will arise. It will be a test of the collective political leadership of this Group, whether we are able to resist these pressures in our countries. I am happy to note that the Delhi Ministerial succeeded in reviving momentum for the Doha Round negotiations. I venture to suggest that this is an area where the industrial countries can give a lead to achieve a successful outcome.

We have done a great deal on finance and what remains is easily doable. We need to address the difficult tasks on the trade front which are now more important for the medium term."

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